



Barclays Africa Group Limited

Summary consolidated financial results

For the reporting period ended 31 December 2017





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Barclays Africa Group Limited
Barclays Africa Group Limited summary consolidated annual financial results for the reporting period ended 31 December 2017

Authorised financial services and registered credit provider (NCRCP7)
Registration number: 1986/003934/06
Incorporated in the Republic of South Africa
JSE share code: BGA
ISIN: ZAE000174124

These summary consolidated annual financial results (financial statements) were prepared by Barclays Africa Group Financial Control under the direction and supervision of Group Financial Director, J P Quinn CA(SA).

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Profit and dividend announcement

for the reporting period ended 31 December

Salient features

Barclays Africa Group Limited (BAGL) disclosed International Financial Reporting Standards (IFRS) financial results and a normalised view, which adjusts for the financial consequences of separating from Barclays PLC.

Normalised diluted Headline earnings per share (HEPS) grew 4% to 1 837.7 cents, while diluted IFRS HEPS including R1,9bn of separation costs decreased 4% to 1 716.5 cents.

Declared a 4% higher full year dividend per share (DPS) of 1070 cents.

South Africa Banking headline earnings grew 4% to R12,2bn, Rest of Africa Banking rose 7% to R3,0bn and Wealth, Investment Management and Insurance (WIMI) decreased 8% to R1,2bn.

Normalised return on equity (RoE) declined slightly to 16,4% and return on assets (RoA) improved to 1,38%.

Normalised revenue grew 1% to R72,9bn and operating expenses rose 4% to R41,4bn.

On a constant currency basis normalised revenue grew 3% and diluted HEPS increased 7%.

Normalised pre-provision profit declined 3% to R31,5bn.

Credit impairments fell 20% to R7,0bn, resulting in a 0,87% credit loss ratio from 1,08%.

Barclays Africa Group Limited's normalised Common Equity Tier 1 (CET1) ratio of 12,1% remains above regulatory requirements and our board target range.

Normalised net asset value (NAV) per share rose 5% to 11 550 cents.

Normalised reporting

With the process of separating from Barclays PLC well under way, including receipt of the R12,1bn settlement contribution in June 2017, BAGL has reported both IFRS compliant financial results and a normalised view. The latter adjusts for the consequences of the separation and better reflects the Group's underlying performance. The Group will present normalised results for future periods where the financial impact of separation is considered material. Normalisation will adjust for the following items: endowment income on Barclays PLC's R12.1bn separation contribution (2017: R325m); hedging revenue linked to separation activities (2017: R80m); operating expenses (2017: R1 901m) and other expenses (2017: R394m), plus the tax impact of the aforementioned (2017: R408m). In total, these adjustments added R1 245m to normalised group headline earnings during the period. Since normalisation occurs at a group level, it does not affect divisional disclosures.

Overview of results

On a normalised basis, BAGL's headline earnings grew 4% to R15 558m from R14 980m and diluted HEPS rose 4% to 1 837.7 cents from 1 769.4 cents. The Group's normalised RoE was 16,4% from 16,6% and its return on assets increased to 1,38% from 1,34%. Revenue grew 1% to R72,9bn, with net interest income and non-interest income rising 1%. Revenue growth improved to 3% in the second half. The Group's net interest margin (on average interest-bearing assets) was flat at 4,95%. Loans and advances to customers grew 4% to R750bn, while deposits due to customers rose 2% to R690bn. With operating expenses growing 4%, the normalised cost-to-income ratio increased to 56,8% from 55,2%, and pre-provision profit decreased 3% to R31,5bn. The stronger rand reduced Group revenue by 2% and headline earnings by 3%. In constant currency, pre-provision profit declined 1%, and grew 2% in the second half. Credit impairments fell 20% to R7,0bn, resulting in a 0,87% credit loss ratio from 1,08%. The ratio of Non-performing loans (NPLs) to gross loans and advances improved to 3,7% from 3,9%, and portfolio provisions decreased to 70 basis points (bps) of performing loans from 79 bps, although macroeconomic overlays increased 2% to R1,4bn. The Group's NAV per share increased 5% to 11 550 cents on a normalised basis and it declared a 4% higher full year dividends per share (DPS) of 1 070 cents.

Excluding normalisation, BAGL's IFRS headline earnings declined 4% to R14 313m from R14 980m and diluted HEPS decreased 4% to 1 716.5 cents. The Group's RoE fell to 14,2%, largely due to the additional capital, and its return on assets declined to 1,27% from 1,34%. Net interest income increased 2% and non-interest income increased by 1%, resulting in 1% higher total revenue. Operating expenses grew 8%, increasing the cost to income ratio to 59,1% from 55,2% and pre-provision profit decreased 8% to R30,0bn. The Group's NAV per share rose 19% to 13 018 cents, given Barclays PLC's separation contribution in equity.

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Profit and dividend announcement (*continued*)

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Overview of results (*continued*)

South Africa Banking headline earnings grew 4% to R12 200m. Within this, Retail and Business Banking (RBB) SA headline earnings rose 1% to R8 874m due to 16% lower credit impairments and improved second half revenue growth. Retail Banking headline earnings were flat R6 546m, while Business Banking grew 1% to R2 328m. Corporate and Investment Bank (CIB) rose 16%, given 5% higher pre-provision profits and 44% lower credit impairments. Corporate rose 8% to R1 143m and Investment Banking increased 22% to R2 183m. Rest of Africa Banking headline earnings grew 7% to R2 954m, or 24% in constant currency. RBB Rest of Africa declined 6%, despite rising 19% in constant currency, while CIB Rest of Africa grew 8% and 21% in constant currency. WIMI's headline earnings decreased 8% to R1 156m, reflecting higher catastrophe event claims, unwinding of a Life deferred tax asset raised in 2016 and a single client credit impairment in Wealth.

Operating environment

The global expansion has been broad-based across economies and sectors. US growth was the positive surprise in the second half, but the Euro area, Japan and China all grew at or above consensus. Global inflation remained muted, allowing for gradual normalisation of monetary policy in advanced economies.

South Africa's economic growth remained low for a fifth consecutive year, with real GDP rising 0.9% after recovering from recession in early 2017. The rebound in agriculture contributed to the improvement following two years of drought. However, household and business confidence remained weak due to economic and political uncertainty. The Reserve Bank reduced interest rates 25 bps in July, South Africa's first rate cut in five years.

Economic growth improved somewhat in a number of our key rest of Africa countries, supported by commodity price recover and ongoing infrastructure investment. We expect real GDP to have grown 5.4% across our markets in 2017, although it varied across our portfolio. Fiscal challenges remain a key constraint in several markets, more notably Ghana, Mozambique and Zambia. Rates were reduced in all our countries besides Kenya, with sizeable cuts in Ghana, Zambia and Tanzania.

Group performance

Statement of financial position

Total assets increased 6% to R1 165bn at 31 December 2017 on a normalised basis, due to 37% higher trading portfolio assets and 11% growth in loans and advances to banks.

Loans and advances to customers

Net loans and advances to customers increased 4% to R750bn, or 5% on a constant currency basis. South African Banking loans rose 5% to R666bn. Retail Banking South Africa's loans grew 2% to R383bn, reflecting 8% growth in Vehicle and Asset Finance (VAF) and 6% higher Personal Loans, while Card and Payments declined 1% and Home Loans remained flat. Business Banking South Africa's loans rose 7% to R63bn. CIB South Africa's loans grew 8% to R219bn, including 16% growth in Corporate and 4% in the Investment Bank. Rest of Africa Banking loans were flat at R78bn, despite increasing 9% in constant currency.

Funding

The Group's liquidity position remains strong, with liquid assets and other sources of liquidity growing 11% to R213bn, which equates to 31% of customer deposits. The Group's three-month average liquidity coverage ratio for the fourth quarter of 2017 was 107.5%, comfortably above the minimum hurdle of 80% during 2017. The Group's deposits due to customers grew 2% to R690bn or 4% in constant currency. Loans to deposit and debt securities ratio increased to 90.6%. Deposits due to customers constituted 77% of total funding. Retail Banking South Africa increased deposits 6% to R187bn and Business Banking rose 4% to R114bn, while CIB's grew 2% to R177bn. Rest of Africa Banking deposits decreased 3% to R109bn, despite growing 6% in constant currency.

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Profit and dividend announcement (*continued*)

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Group performance (*continued*)

Statement of financial position (*continued*)

Net asset value

The Group's normalised NAV rose 5% to R98bn and its NAV per share grew 5% to 11 550 cents. During the year it generated retained earnings of R15,1bn, from which it paid R8,8bn in ordinary dividends. Its foreign currency translation reserve reduced to R0.4bn from R2.4bn.

Capital to risk-weighted assets

Group risk-weighted assets (RWAs) increased 5% to R737bn at 31 December 2017, due to increased credit risk RWAs. The Group remains well capitalised, comfortably above minimum regulatory requirements. The Group's normalised CET1 and Tier 1 capital adequacy ratios were 12,1% and 14,9% respectively (from 12,1% and 14,8%). The Group generated 2,2% of CET1 capital internally during the period. The day 1 impact from implementing IFRS 9 accounting is expected to reduce the Group's CET1 ratio by no more than 35 bps, which will be phased in over three years. Declaring a 4% higher full year DPS of 1 070 cents on a dividend cover of 1,7 times took into account the difficult and volatile macroeconomy, the Group's strong capital position, internal capital generation, strategy and growth plans.

Statement of comprehensive income

The commentary below refers to normalised financial results

Net interest income

Net interest income increased 1% to R42 319m from R42 003m, while average interest-bearing assets grew 1%. The Group's net interest margin (to average interest-bearing assets) was unchanged at 4,95%. Net interest income grew 3% on a constant currency basis.

Loan pricing reduced the Group's margin by 2 bps, primarily due to the impact of lower National Credit Act (NCA) caps on unsecured retail portfolios in South Africa. Loan composition reduced the margin by 3 bps, given a higher proportion of CIB loans. The Group's deposit margin increased 1 basis point, largely due to improved pricing and mix in Corporate. The structural hedge released R258m to the income statement, in line with its 2016 contribution. Despite July's interest rate cut in South Africa, the capital and deposit endowment benefit increased 3 bps, as these balances grew faster than interest bearing assets. Rest of Africa reduced the Group margin by 2 bps mainly reflecting regulatory caps in Kenya and its lower weighting in the overall composition due to the stronger Rand.

South Africa Banking's net interest margin narrowed to 3,37% from 3,47% and Rest of Africa Banking's decreased to 7,18% from 7,25%.

Non-interest income

Non-interest income grew 1% to R30 581m from R30 391m to account for 42% of total revenue. On a constant currency basis, the growth was 2%.

Net fee and commission income grew 5% to R21 711m, which represented 71% of total non-interest income. Electronic banking fees and commissions increased 3% to R5 185m and cheque accounts fees rose 14% to R4 943m. Credit card fees and commissions increased 1% to R2 624m and savings accounts decreased 10% to R2 062m. Card merchant income grew 8% to R1 890m. Investment, markets execution and investment banking fees increased 42% to R568m.

Net trading excluding hedge accounting declined 11% to R4 855m, reflecting lower South Africa trading revenue and the impact of the strong Rand. Within other operating income, there was a non-headline foreign currency translation reserve gain of R320m in the first half of 2016, which did not recur. South Africa Banking's non-interest income grew 4% to R21 366m, 70% of the Group total. Retail Banking South Africa increased 6% to R13 519m, as Transactional and Deposits grew 7% and Card and Payments 3%, including 11% growth in acquiring volumes. Business Banking's non-interest income increased 4% to R3 663m, with 9% higher growth excluding equities. CIB South Africa declined 1% to R4 184m, with Corporate up 10% and the Investment Bank down 6% due to lower Markets revenue.

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Profit and dividend announcement (*continued*)

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Group performance (*continued*)

Statement of comprehensive income (*continued*)

Non-interest income (*continued*)

Rest of Africa Banking's non-interest income declined 7% to R4 853m due entirely to the strong Rand, as constant currency growth was 3%. CIB Rest of Africa declined 6% to R2 297m, but increased 5% in constant currency. RBB Rest of Africa fell 8% to R2 550m, which was 1% higher in constant currency.

WIMI's non-interest revenue grew 6% to R5 128m, reflecting 6% higher Life Insurance net premium income and policyholder and reserving adjustments recognised in 2016 which did not recur.

Impairment losses on loans and advances

Credit impairments decreased 20% to R7 022m from R8 751m, which improved the Group's credit loss ratio to 0,87% from 1,08% of gross customer and bank loans and advances. Credit impairments included collection costs of R289m.

Group NPLs decreased 1% to R30 891m, or 3,75% of gross loans and advances from 3,94%. Total NPL coverage declined to 43,1% from 44,2%. Total balance sheet provisions decreased 4% to R18 874m partially reflecting the write-off of an exposure in CIB South Africa during 2016. Portfolio provisions declined 7% to R5 560m, constituting 0,70% of total performing loans from 0,79%, largely due to lower model driven impairments. Macroeconomic overlays grew 2% to R1,4bn.

South Africa Banking credit impairments decreased 20% to R5 605m, resulting in a 0,80% credit loss ratio from 1,03%. Retail Banking credit impairments declined 12% to R4 764m, reducing its credit loss ratio to 1,20% from 1,39%, due to the improved quality of new loans, better collection strategies and reduced store card sales. Home Loans' charge fell 25% to R689m, a 0,30% credit loss ratio from 0,40%. Vehicle and Asset Finance's credit impairments declined 19% to R847m, improving its credit loss ratio to 0,87% from 1,14%. Card and Payments credit impairments decreased 18% to R1 924m, resulting in a 4,53% credit loss ratio from 5,41%. Personal Loans' charge rose 12% to R1 112m, reflecting stricter write off criteria, which increased its credit loss ratio to 6,09% from 5,68%.

Business Banking South Africa credit impairments fell 53% to R274m, reflecting lower early arrears and improved collections. Its credit loss ratio decreased to 0,43% from 0,98%.

CIB South Africa credit impairments decreased 44% to R567m from R1 020m, due to a large single name exposure in 2016. Its credit loss ratio normalised to 0,24% from a high base of 0,44%.

Rest of Africa Banking credit impairments fell 26%, or 18% in constant currency, to R1 289m from R1 732m. Its credit loss ratio improved to 1,34% from 1,62%. RBB Rest of Africa's charge fell 30%, or 23% in constant currency, to R950m reflecting increased focus on collections. CIB Rest of Africa's credit impairments decreased 11%, or 3% in constant currency, due to an adjustment to emergence periods and some specific exposures in the base.

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Profit and dividend announcement (*continued*)

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Group performance (*continued*)

Statement of comprehensive income (*continued*)

Operating expenses

Group operating expenses grew 4% to R41 403m from R39 956m, resulting in a 56,8% cost-to-income ratio from 55,2%. In constant currency operating expenses increased 6%.

Staff costs grew 5% and accounted for 56% of total expenses. Salaries rose 5% or 7% in constant currency, while total incentives grew 4%. Headcount increased 1%, largely due to technology hires in South Africa, while rest of Africa declined 4%.

Non-staff costs grew 2%. Professional fees fell 2% to R1 699m, while telephone and postage declined 7% and printing and stationery decreased 9%. Operating leases on properties decreased 4% to R1 606m and property costs rose 1% to R1 731m. Marketing costs grew 8% to R1 709m, reflecting retail product campaigns and the Shared Growth initiative. Total IT-related spend grew 8% to R7 362m and constituted 18% of Group expenses. Amortisation of intangible assets rose 1% to R650m, while cash transportation increased 13% to R1 089m. The 19% growth in depreciation reflects investment in technology and optimisation of the corporate property portfolio and branch network.

South Africa Banking costs grew 6% to R30 102m. RBB South Africa increased 7%, reflecting continued investment in frontline staff, marketing campaigns and retail product launches, plus digital and channels. CIB South Africa expenses grew 2%, reflecting efficiency initiatives.

Rest of Africa Banking expenses decreased 2% due to the strong Rand. Its costs increased 7% in constant currency, with CIB growing 12% and RBB rising 5%. Operating expenses increased in the second half, given incremental IT costs after Barclays PLC's sell down. Excluding these, costs were contained at below inflation, allowing Rest of Africa Banking to maintain a stable cost-to-income ratio of 57,6%.

WIMI's costs grew 3% to R3 631m, with continuing line costs increasing 4%.

Other expenses decreased 12% to R1 876m, reflecting 53% lower 'other impairments' to R322m and 9% higher indirect taxation of R1 554m.

Taxation

The Group's taxation expense increased 7% to R6 265m, slightly above the 5% growth in pre-tax profit, resulting in a 27,5% effective tax rate from 26,9%. The increase largely reflects 56% growth in non-tax deductible expenses.

Segment performance

The segmental disclosure has changed to reflect the Group's leadership structure and the way in which businesses are run along geographic rather than divisional lines.

South Africa Banking

Headline earnings grew 4% to R12 200m, due to 20% lower credit impairments, as pre-provision profits declined 2% to R23 243m. Revenue grew 2% to R53 345m, with non-interest income increasing 4%. Costs grew 6% to R30 102m, resulting in a 56,4% cost to income ratio from 54,4%. Its credit loss ratio fell to 0,80% from 1,03%, as all three divisions improved. South Africa Banking generated a return on regulatory capital (RoRC) of 20,8% and constituted 75% of total normalised headline earnings excluding the group centre.

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Segment performance (*continued*)

RBB South Africa

Headline earnings increased marginally to R8 874m, largely due to 16% lower credit impairments. Non-interest income grew 5%, while net interest income was flat due to margin compression. Operating expenses rose 7%, reflecting continued investment in systems and frontline staff. RBB South Africa accounted for 54% of normalised headline earnings excluding the group centre and generated a 23.5% RoRC.

Retail Banking South Africa

Headline earnings were flat at R6 546m, as pre-provision profits declined 3%, which was offset by 12% lower credit impairments. However, headline earnings grew 12% in the second half, as new loan production and revenue improved. Although Transactional and Deposits' non-interest income grew 7%, higher credit impairments and 9% cost growth resulted in earnings falling 8% to R2 470m. Home Loans' earnings rose 5% to R1 715m, reflecting cost containment, strong non-interest income growth and 25% lower credit impairments. Card and Payments earnings grew 3% to R1 601m, largely due to lower credit impairments and growth in acquiring revenue. Vehicle and Asset Finance earnings grew 20% to R963m, on 19% lower credit impairments and solid non-interest income and loan growth. Lower costs drove the 3% rise in Personal Loans earnings to R436m. Retail Banking South Africa accounted for 40% of normalised headline earnings excluding the group centre and generated a 23,1% RoRC.

Business Banking South Africa

Headline earnings increased 1% to R2 328m, as credit impairments dropped 53%. Revenue growth improved in the second half, but pre-provision profits declined as costs grew 11% given continued investment in frontline staff and systems. Non-interest income rose 9% excluding equities. Business Banking South Africa generated 14% of overall normalised headline earnings excluding the group centre and produced a 27,7% RoRC.

CIB South Africa

Headline earnings increased 16% to R3 326m, largely due to a 44% reduction in credit impairments off a high base. Pre-provision profits grew 5% as 3% revenue growth exceeded 2% higher costs. Corporate earnings grew 8% to R1 143m as 9% revenue growth produced 15% higher pre-provision profits. Investment Bank earnings increased 22% to R2 183m, largely due to 60% lower credit impairments and reduced costs. CIB South Africa contributed 20% of total normalised headline earnings excluding the group centre and generated a 15.9% RoRC.

Rest of Africa Banking

Headline earnings grew 7%, or 24% in constant currency, to R2 954m, due to positive constant currency operating Jaws and 26% lower credit impairments. Pre-provision profits increased 9% in constant currency. Revenue fell 3% to R15 617m, masking 8% growth in constant currency. While costs fell 2% to R9 000m, it rose 7% in constant currency, resulting in a 57,6% cost-to-income ratio. Credit impairments fell 26% to R1 289m, resulting in a 1,34% credit loss ratio from 1,62%. Rest of Africa Banking accounted for 18% of total normalised headline earnings excluding the group centre and generated a 16,6% RoE.

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Segment performance (*continued*)

RBB Rest of Africa

Headline earnings fell 6% to R670m, despite increasing 19% in constant currency. Constant currency revenue growth of 2% reflected margin compression from regulatory changes in Kenya. Costs grew 5% in constant currency, resulting in a 72,4% cost-to-income ratio. Credit impairments decreased 23% in constant currency, improving its credit loss ratio to 2,22% from 2,92%. RBB Rest of Africa contributed 4% of total normalised headline earnings excluding the group centre.

CIB Rest of Africa

Headline earnings grew 8% to R2 348m, or 21% in constant currency. Revenue increased 7% to exceed 3% higher costs. These grew 18% and 12% in constant currency respectively to produce a 36.5% cost-to-income-ratio. Pre-provision profits increased 9%. Credit impairments fell 3% in constant currency. Corporate earnings grew 18% or 32% in constant currency to R1.7bn. Rand strength reduced Investment Bank's earnings, which declined 10% to R0,7bn, despite rising 2% in constant currency. CIB Rest of Africa contributed 14% of total normalised headline earnings excluding the group centre.

Wealth, Investment Management and Insurance

Headline earnings decreased 8% to R1 156m, South Africa earnings decreased 17% to R1 137m and Rest of Africa returned to profitability, with earnings of R19m. Gross operating income grew 2% to R6 171m and costs rose 3% to R3 279m. Life insurance earnings fell 9% due to the unwinding of a deferred tax asset raised in the prior year. Embedded value of new business increased 10% from growth in risk policies written. Despite strong 16% growth in assets under management to R335bn the Investment cluster earnings were impacted by margin compression resulting in 2% growth in earnings. Wealth Management earnings declined to a R49m loss due to a credit impairment on a single client. Short-term insurance earnings grew 2%, despite experiencing significantly higher catastrophe event claims. Excluding these events, its underwriting margin in South Africa improved to 8,7%. WIMI's RoE was 20,1% and it generated 7% of total earnings excluding the group centre.

Prospects

In South Africa we expect a modest improvement in real GDP growth to 1,4% in 2018, with upside potential from fixed investment, a rebound in confidence and strong global growth, although fiscal consolidation remains a concern and there is downside risk for credit ratings. We believe the South African Reserve Bank will keep interest rates on hold for some time.

Our latest forecast indicates slightly better GDP growth of 5,8% in our markets in Rest of Africa, with further monetary policy easing in a number of countries. At current exchange rates, the Rand could weigh on our Rest of Africa reported growth again in 2018.

Given these assumptions, and excluding major political, macroeconomic or regulatory developments, we expect our loan and deposit growth to improve in 2018. We again see stronger loan growth from Rest of Africa in constant currency and CIB than Retail South Africa. Our net interest margin is likely to decline slightly this year, due to rate cuts in the rest of Africa, regulatory costs and mix effects. Costs will remain well controlled and our operating Jaws should improve from last year's. While IFRS 9 could increase volatility, we expect a stable credit loss ratio. Our CET1 ratio is likely to remain above Board targets, which will allow us to maintain our current dividend cover. Lastly, our normalised RoE should improve slightly in 2018.

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Normalised financial results as a consequence of Barclays PLC separation

On 1 March 2016, Barclays PLC announced its intention to sell down its 62,3% interest in the Group. A comprehensive separation programme was initiated by Barclays PLC and the Group to determine possible interactions between the companies to ensure that the Group can operate as an independent and sustainable group without the involvement of Barclays PLC.

Barclays PLC currently holds 14,9% in the Group.

As part of its divestment Barclays PLC contributed £765m to the Group, primarily in recognition of the investments required for the Group to separate from Barclays PLC. Investments will be made primarily in rebranding, technology and separation-related projects and it is expected that it will neutralise the capital and cash flow impact of separation investments on the Group over time.

The separation process will have an impact on the Group's financial results for the next few years, most notably by increasing the capital base in the near-term and generating endowment revenue thereon, with increased costs over time as the separation investments are concluded. International Financial Reporting Standards (IFRS) require that the Barclays PLC contribution be recognised directly in equity, while the subsequent investment expenditure (including the depreciation or amortisation of capitalised assets), will be recognised in profit or loss. The aforementioned will result in a disconnect between underlying business performance and the IFRS financial results during the separation period.

The following presents the items which have been excluded from the normalised financial results:

- > Barclays PLC contribution (including the endowment benefit)
- > Hedging linked to separation activities
- > Technology and brand separation projects
- > Depreciation and amortisation on the aforementioned projects
- > Transitional service payments to Barclays PLC
- > Employee cost and benefits linked to separation activities
- > Separation project execution and support cost.

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Basis of presentation

The Group's summary consolidated annual financial statements have been prepared in accordance with the recognition and measurement requirements of IFRS, interpretations issued by the IFRS Interpretations Committee (IFRS-IC), the South African Institute of Chartered Accountants' Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act. The principal accounting policies applied are set out in the Group's most recent audited annual consolidated financial statements.

The information disclosed in the SENS is derived from the information contained in the audited annual consolidated financial statements and does not contain full or complete disclosure details. Any investment decisions by shareholders should be based on consideration of the audited annual consolidated financial statements, which is available on request. The presentation and disclosures comply with International Accounting Standards IAS 34.

The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. The accounting policies that are deemed critical to the Group's results and financial position, in terms of the materiality of the items to which the policies are applied, and which involve a high degree of judgement including the use of assumptions and estimation, are impairment of loans and advances, goodwill impairment, fair value measurements, impairment of available-for-sale financial assets, consolidation of structured or sponsored entities, post-retirement benefits, provisions, income taxes, share-based payments, liabilities arising from claims made under short-term and long-term insurance contracts and offsetting of financial assets and liabilities.

Accounting policies

The accounting policies applied in preparing the summary consolidated financial statements are the same as those in place for the reporting period ended 31 December 2016 except for the adoption of the own credit exemption of IFRS 9 *Financial Instruments* (IFRS 9), changes to the Group's operating segments and business portfolios changes between operating segments. Refer to note 15.

Standards issued not yet effective

IFRS 9 – Financial instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement with effect from 1 January 2018. IFRS 9 includes revised requirements for the classification and measurement of financial assets and liabilities, the impairment of financial assets and hedge accounting. BAGL will not restate comparatives on initial application of IFRS 9 on 1 January 2018 but will provide detailed transitional disclosures in accordance with the amended requirements of IFRS 7 Financial Instruments: Disclosures. Any change in the carrying value of financial instruments upon initial application of IFRS 9 will be recognised in equity.

IFRS 9 introduces a revised impairment model which requires entities to recognise expected credit losses ('ECL') based on unbiased forward-looking information. The measurement of expected loss will involve increased complexity and judgment including estimation of lifetime probabilities of default, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing increases in credit risk.

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Profit and dividend announcement (*continued*)

for the reporting period ended 31 December

Standards issued not yet effective (*continued*)

IFRS 9 – Financial instruments (*continued*)

The revised impairment model is expected to have a material financial impact on the existing impairment provisions previously recognised in terms of the requirements of IAS 39. It is estimated that the increase on IAS 39 impairment stock (including contractual interest suspended) will be in the region of 30%, on a pre-tax basis. Based on the current requirements of Basel III, the increase in the accounting impairment provisions is not expected to reduce the Group's Common Equity Tier 1 (CET1) capital ratio by more than 35bps, on 1 January 2018, before taking into account the impact of the regulatory transitional arrangement. Barclays Africa Group Limited has elected to utilise the transition period of three years for phasing in the regulatory capital impact of IFRS 9. IFRS 9 has been considered in the Group's capital planning.

The reasons for the change in impairment provisions are:

- > The removal of the emergence period that was necessitated by the incurred loss model of IAS 39. All stage 1 assets will carry a 12 month expected credit loss provision. This differs from IAS 39 where unidentified impairments were typically measured with an emergence period of between three to twelve months.
- > The provisioning for lifetime expected credit losses on stage 2 assets; where some of these assets would not have attracted a lifetime expected credit loss measurement per IAS 39.
- > The inclusion of forecasted macroeconomic scenarios into the expectation of credit losses;
- > The inclusion of expected credit losses on items that would not have been impaired under IAS 39, such as loan commitments and financial guarantees.

On initial adoption the new classification and measurement requirements under IFRS 9 will have an insignificant impact on the retained income of the Group. The specific requirements of IFRS 9 relating to the presentation of gains and losses on financial liabilities designated at fair value were early adopted at the beginning of the current reporting period. The effects of changes in the credit risk of these liabilities' are therefore presented in other comprehensive income with the remaining effect presented in profit or loss. The Group will continue to apply the rules under IAS 39 hedge accounting until the project on accounting for macro hedging is completed, if not earlier.

IFRS 15 –Revenue from contracts with customers

Implementation efforts performed to date indicate that the adoption of IFRS 15 is not expected to have a significant impact on the financial results of the Group.

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Profit and dividend announcement (*continued*)

for the reporting period ended 31 December

Auditors' report

Ernst & Young Inc. (EY) and KPMG Inc (KPMG), Barclays Africa Group Limited's independent auditors, have audited the consolidated annual financial statements of Barclays Africa Group Limited from which management prepared the summary consolidated financial statements. The auditors have expressed an unqualified audit opinion on the consolidated annual financial statements. The summary consolidated financial statements comprise the summary consolidated statement of financial position at 31 December 2017, summary consolidated statement of comprehensive income, summary consolidated statement of changes in equity and summary consolidated statement of cash flows for the reporting period then ended and selected explanatory notes, excluding items not indicated as audited. The audit report of the consolidated annual financial statements is available for inspection at Barclays Africa Group Limited's registered office.

These summary annual consolidated financial statements (on pages 9-11 and 16-45) for the year ended 31 December 2017 have been audited by EY and KPMG, who expressed an unmodified opinion thereon. A copy of the auditors' report on the summary consolidated financial statements and of the auditors' report on the annual financial statements are available for inspection at the Group's registered office, together with the financial statements identified in the respective auditor's reports.

Events after the reporting period

The directors are not aware of any events after the reporting date of 31 December 2017 and the date of authorisation of these summary consolidated annual financial statements as defined in IAS 10 Events after the Reporting Period (IAS 10).

On behalf of the Board

W E Lucas-Bull
Group Chairman

Johannesburg
28 February 2018

M Ramos
Chief Executive Officer

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Profit and dividend announcement (*continued*)

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Declaration of final ordinary dividend number 63

Shareholders are advised that an ordinary dividend of 595 cents per ordinary share was declared on 1 March 2018, for the period ended 31 December 2017. The ordinary dividend is payable to shareholders recorded in the register of members of the Company at the close of business on 13 April 2018. The directors of Barclays Africa Group Limited confirm that the Group will satisfy the solvency and liquidity test immediately after completion of the dividend distribution.

The dividend will be subject to local dividends withholding tax at a rate of 20%. In accordance with paragraphs 11.17 (a) (i) to (ix) and 11.17 (c) of the JSE Listings Requirements, the following additional information is disclosed:

- > The dividend has been declared out of income reserves.
- > The local dividend tax rate is twenty per cent (20%).
- > The gross local dividend amount is 595 cents per ordinary share for shareholders exempt from the dividend tax.
- > The net local dividend amount is 476 cents per ordinary share for shareholders liable to pay the dividend tax.
- > Barclays Africa Group Limited currently has 847 750 679 ordinary shares in issue (includes 14 912 864 treasury shares⁽¹⁾).
- > Barclays Africa Group Limited's income tax reference number is 9150116714.

In compliance with the requirements of Strate, the electronic settlement and custody system used by the JSE Limited, the following salient dates for the payment of the dividend are applicable:

Last day to trade cum dividend	Tuesday, 10 April 2018
Shares commence trading ex-dividend	Wednesday, 11 April 2018
Record date	Friday, 13 April 2018
Payment date	Monday, 16 April 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 11 April 2018 and Friday, 13 April 2018, both dates inclusive. On Monday, 16 April 2018, the dividend will be electronically transferred to the bank accounts of certificated shareholders. The accounts of those shareholders who have dematerialised their shares (which are held at their participant or broker) will also be credited on Monday, 16 April 2018.

On behalf of the Board

N R Drutman
Group Company Secretary

Johannesburg

1 March 2018

Barclays Africa Group Limited is a company domiciled in South Africa. Its registered office is 7th Floor, Barclays Towers West, 15 Troye Street, Johannesburg, 2001.

Note

⁽¹⁾ Includes 13 089 157 shares of BAGL shares to be used in the furtherance of the Group's objective of establishing a BBBEE structure.

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Consolidated IFRS salient features

	2017	2016
Statement of comprehensive income (Rm)		
Income	73 305	72 394
Operating expenses	43 304	39 956
Profit attributable to ordinary equity holders	13 823	14 708
Headline earnings ⁽¹⁾	14 313	14 980
Statement of financial position		
Loans and advances to customers (Rm)	749 772	720 309
Total assets (Rm)	1 165 979	1 101 023
Deposits due to customers (Rm)	689 867	674 865
Loans to deposits and debt securities ratio (%)	90.6	88.4
Financial performance (%)		
Return on equity (RoE)	14.2	16.6
Return on average assets (RoA)	1.27	1.34
Return on risk-weighted assets (RoRWA)	1.99	2.14
Non-performing loans (NPL) ratio on gross loans and advances	3.75	3.94
Operating performance (%)		
Net interest margin on average interest-bearing assets	4.96	4.95
Credit loss ratio on gross loans and advances to customers and banks	0.87	1.08
Non-interest income as percentage of total income	41.8	42.0
Cost-to-income ratio	59.1	55.2
Jaws	(7)	2
Effective tax rate	28.1	26.9
Share statistics (million)		
Number of ordinary shares in issue	847.8	847.8
Number of ordinary shares in issue (excluding treasury shares)	832.8	846.7
Weighted average number of ordinary shares in issue	833.7	833.8
Diluted weighted average number of ordinary shares in issue	833.8	833.9
Share statistics (cents)		
Headline earnings per ordinary share(HEPS) ⁽²⁾	1 716.7	1 796.6
Diluted headline earnings per ordinary share(DHEPS) ⁽²⁾	1 716.5	1 796.4
Basic earnings per ordinary share(EPS) ⁽²⁾	1 657.8	1 764.0
Diluted basic earnings per ordinary share(DEPS) ⁽²⁾	1 657.6	1 763.8
Dividend per ordinary share relating to income for the reporting period	1 070	1 030
Dividend cover (times)	1.6	1.7
NAV per ordinary share	13 018	10 980
Tangible NAV per ordinary share	12 372	10 501
Capital adequacy (%)		
Barclays Africa Group Limited	16.1	14.8
Absa Bank Limited	16.9	15.1
Common Equity Tier 1 (%)		
Barclays Africa Group Limited	13.5	12.1
Absa Bank Limited	13.4	11.6

Notes

⁽¹⁾ After allowing for R 362m (2016: R352m) profit attributable to preference equity holders and R48m (2016: Nil) profit attributable to Additional Tier 1 Capital holders.

⁽²⁾ As a result of the acquisition from Barclays PLC of 12 716 260 (1.5%) BAGL shares in the current reporting period, this has resulted in the restatement of treasury shares for 2016 which has an impact in the calculation of the EPS, DEPS, HEPS and DHEPS.

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Normalised salient features	2017	2016
Statement of comprehensive income (Rm)		
Income	72 900	72 394
Operating expenses	41 403	39 956
Profit attributable to ordinary equity holders	15 305	14 708
Headline earnings ⁽¹⁾	15 558	14 980
Statement of financial position		
Loans and advances to customers (Rm)	749 772	720 309
Total assets (Rm)	1 165 067	1 101 023
Deposits due to customers (Rm)	689 867	674 865
Loans to deposits and debt securities ratio (%)	90.6	88.4
Financial performance (%)		
Return on equity (RoE)	16.4	16.6
Return on average assets (RoA)	1.38	1.34
Return on risk-weighted assets (RoRWA)	2.16	2.14
Non-performing loans (NPL) ratio on gross loans and advances	3.75	3.94
Operating performance (%)		
Net interest margin on average interest-bearing assets	4.95	4.95
Credit loss ratio on gross loans and advances to customers and banks	0.87	1.08
Non-interest income as percentage of total income	41.9	42.0
Cost-to-income ratio	56.8	55.2
Jaws	(3)	2
Effective tax rate	27.5	26.9
Share statistics (million)		
Number of ordinary shares in issue	847.8	847.8
Number of ordinary shares in issue (excluding treasury shares)	845.6	846.7
Weighted average number of ordinary shares in issue	846.5	846.5
Diluted weighted average number of ordinary shares in issue	846.6	846.6
Share statistics (cents)		
Headline earnings per ordinary share	1 837.9	1 769.6
Diluted headline earnings per ordinary share	1 837.7	1 769.4
Basic earnings per ordinary share	1 808.0	1 737.5
Diluted basic earnings per ordinary share	1 807.8	1 737.3
Dividend per ordinary share relating to income for the reporting period	1 070	1 030
Dividend cover (times)	1.7	1.7
NAV per ordinary share	11 550	10 980
Tangible NAV per ordinary share	11 007	10 501
Capital adequacy (%)		
Barclays Africa Group Limited	14.9	14.8
Absa Bank Limited	15.0	15.1
Common Equity Tier 1 (%)		
Barclays Africa Group Limited	12.1	12.1
Absa Bank Limited	11.6	11.6

Notes

⁽¹⁾ After allowing for R 362m (2016: R351 m) profit attributable to preference equity holders and R48m (2016: Nil) profit attributable to Additional Tier 1 Capital holders.

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	IFRS Group performance	Barclays separation effect	Total Group normalised performance
	2017	2017	2017
Reconciliation of IFRS to normalised results			
Statement of comprehensive income (Rm)			
Net interest income	42 644	325	42 319
Non-interest income	30 661	80	30 581
Total income	73 305	405	72 900
Impairment losses on loans and advances	(7 022)	-	(7 022)
Operating expenses	(43 304)	(1 901)	(41 403)
Other expenses	(2 270)	(394)	(1 876)
Share of post- tax results of associates and joint ventures	170	-	170
Operating profit before income tax	20 879	(1 890)	22 769
Tax expenses	(5 857)	408	(6 265)
Profit for the reporting period	15 022	(1 482)	16 504
Profit attributable to:			
Ordinary equity holders	13 823	(1 482)	15 305
Non-controlling interest - ordinary shares	789	-	789
Non-controlling interest - preference shares	362	-	362
Non-controlling interest - additional Tier 1	48	-	48
	15 022	(1 482)	16 504
Headline earnings	14 313	(1 245)	15 558
Operating performance (%)			
Net interest margin on average interest-bearing assets	4.96	n/a	4.95
Credit loss ratio on gross loans and advances to customers and banks	0.87	n/a	0.87
Non-interest income as % of total income	41.8	n/a	41.9
Income growth	1	n/a	1
Operating expenses growth	8	n/a	4
Cost-to-income ratio	59.1	n/a	56.8
Effective tax rate	28.1	n/a	27.5
Statement of financial position (Rm)			
Loans and advances to customers	749 772	-	749 772
Loans and advances to banks	55 426	-	55 426
Investment securities	111 409	-	111 409
Other assets	249 372	912	248 460
Total assets	1 165 979	912	1 165 067
Deposits due to customers	689 867	-	689 867
Debt securities in issue	137 948	-	137 948
Other liabilities ⁽¹⁾	219 104	(9 840)	228 944
Total liabilities	1 046 919	(9 840)	1 056 759
Equity	119 060	10 752	108 308
Total equity and liabilities	1 165 979	912	1 165 067
Key performance ratios (%)			
RoA	1.27	n/a	1.38
RoE	14.2	n/a	16.4
Capital adequacy	16.1	n/a	14.9
Common Equity Tier 1	13.5	n/a	12.1
Share statistics (cents)			
Diluted headline earnings per ordinary share	1 716.5	n/a	1 837.7

Note
⁽¹⁾ This presents the contribution received from Barclays PLC, net of amounts already spent on separation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in "Other liabilities".

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Summary Consolidated Statement of Financial Position as at 31 December

	Note	2017 Rm	2016 Rm
Assets			
Cash, cash balances and balances with central banks		48 669	50 006
Investment securities		111 409	114 315
Loans and advances to banks		55 426	49 789
Trading portfolio assets		132 183	96 236
Hedging portfolio assets		2 673	1 745
Other assets		20 960	25 542
Current tax assets		314	894
Non-current assets held for sale	1	1 308	823
Loans and advances to customers	2	749 772	720 309
Reinsurance assets		892	985
Investments linked to investment contracts		18 936	18 816
Investments in associates and joint ventures		1 235	1 065
Investment properties		231	478
Property and equipment		15 303	14 643
Goodwill and intangible assets		5 377	4 049
Deferred tax assets		1 291	1 328
Total assets		1 165 979	1 101 023
Liabilities			
Deposits from banks		67 390	53 192
Trading portfolio liabilities		64 047	47 429
Hedging portfolio liabilities		1 123	2 064
Other liabilities		31 744	27 696
Provisions		3 041	3 005
Current tax liabilities		57	244
Non-current liabilities held for sale	1	48	9
Deposits due to customers		689 867	674 865
Debt securities in issue		137 948	139 714
Liabilities under investment contracts		30 585	29 198
Policyholder liabilities under insurance contracts		4 617	4 469
Borrowed funds	3	15 895	15 673
Deferred tax liabilities		557	1 185
Total liabilities		1 046 919	998 743
Equity			
Capital and reserves			
Attributable to ordinary equity holders:			
Share capital		1 666	1 693
Share premium		10 498	4 467
Retained earnings		91 882	81 604
Other reserves		4 370	5 293
		108 416	93 057
Non-controlling interest - ordinary shares		4 500	4 579
Non-controlling interest - preference shares		4 644	4 644
Non-controlling interest - Additional Tier 1 Capital		1 500	-
Total equity		119 060	102 280
Total liabilities and equity		1 165 979	1 101 023

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Summary Consolidated Statement of Comprehensive Income

For the reporting period ended 31 December

	Note	2017 Rm	2016 Rm
Net interest income		42 644	42 003
Interest and similar income		85 929	85 114
Interest expense and similar charges		(43 285)	(43 111)
Non-interest income		30 661	30 391
Net fee and commission income		21 711	20 723
Fee and commission income		24 724	23 972
Fee and commission expense		(3 013)	(3 249)
Net insurance premium income		6 598	6 986
Net claims and benefits incurred on insurance contracts		(3 334)	(3 691)
Changes in investment and insurance contract liabilities		(2 113)	(493)
Gains and losses from banking and trading activities		5 246	5 691
Gains and losses from investment activities		1 905	51
Other operating income		648	1 124
Total income		73 305	72 394
Impairment losses on loans and advances		(7 022)	(8 751)
Operating income before operating expenditure		66 283	63 643
Operating expenditure		(43 304)	(39 956)
Other expenses		(2 270)	(2 120)
Other impairments	4	(648)	(690)
Indirect taxation		(1 622)	(1 430)
Share of post-tax results of associates and joint ventures		170	115
Operating profit before income tax		20 879	21 682
Taxation expense		(5 857)	(5 835)
Profit for the reporting period		15 022	15 847
Profit attributable to:			
Ordinary equity holders		13 823	14 708
Non-controlling interest - ordinary shares		789	788
Non-controlling interest - preference shares		362	351
Non-controlling interest - Additional Tier 1 Capital		48	-
		15 022	15 847
Earnings per share:			
Basic earnings per share (cents)		1 657.8	1 764.0
Diluted earnings per share (cents)		1 657.6	1 763.8

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Summary Consolidated Statement of Other Comprehensive Income for the reporting period ended 31 December

	2017 Rm	2016 Rm
Profit for the reporting period	15 022	15 847
Other comprehensive income		
Items that will not be reclassified to profit or loss	(179)	(220)
Fair value losses arising from changes in own credit risk on liabilities measured at fair value through profit or loss	(147)	-
Movement in retirement benefit fund assets and liabilities	(32)	(220)
Decrease in retirement benefit surplus	(91)	(120)
Decrease/(increase) in retirement benefit deficit	45	(141)
Deferred tax	14	41
Items that are or may be subsequently reclassified to profit or loss	(1 327)	(2 942)
Movement in foreign currency translation reserve	(2 219)	(4 529)
Differences in translation of foreign operations	(2 271)	(4 209)
Release to profit or loss	52	(320)
Movement in cash flow hedging reserve	794	1 726
Fair value gains	1 465	2 721
Amount removed from other comprehensive income and recognised in profit or loss	(365)	(321)
Deferred tax	(306)	(674)
Movement in available-for-sale reserve	98	(139)
Fair value gains/(losses)	154	(197)
Release to profit or loss	67	(3)
Deferred tax	(123)	61
Total comprehensive income for the reporting period	13 516	12 685
Total comprehensive income attributable to:		
Ordinary equity holders	12 590	11 931
Non-controlling interest - ordinary shares	516	403
Non-controlling interest - preference shares	362	351
Non-controlling interest - Additional Tier 1 Capital	48	-
	13 516	12 685

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Summary consolidated statement of changes in equity

	Number of ordinary shares '000	Share capital Rm	Share premium Rm	Retained earnings Rm	Total other reserves Rm	General credit risk reserve Rm	Available- for-sale reserve Rm
Balance at the beginning of the reporting period	846 675	1 693	4 467	81 604	5 293	757	377
Total comprehensive income	-	-	-	13 650	(1 060)	-	68
Profit for the period	-	-	-	13 823	-	-	-
Other comprehensive income	-	-	-	(173)	(1 060)	-	68
Dividends paid during the reporting period	-	-	-	(8 821)	-	-	-
Distributions paid during the reporting period	-	-	-	-	-	-	-
Issuance of Additional Tier 1 Capital	-	-	-	-	-	-	-
Purchase of Group shares in respect of equity-settled share-based payment arrangements	-	-	(741)	12	-	-	-
Elimination of the movement in treasury shares held by Group entities	(13 837)	(27)	(2 385)	-	-	-	-
Movement in share-based payment reserve	-	-	742	-	(55)	-	-
Transfer from share-based payment reserve	-	-	742	-	(742)	-	-
Value of employee services	-	-	-	-	655	-	-
Deferred tax	-	-	-	-	32	-	-
Movement in general credit risk reserve	-	-	-	(22)	22	22	-
Share of post-tax results of associates and joint ventures	-	-	-	(170)	170	-	-
Disposal of non-controlling interest ⁽¹⁾	-	-	-	-	-	-	-
Barclays separation ⁽²⁾	-	-	8 415	3 690	-	-	-
Barclays separation - Empowerment Trust ⁽³⁾	-	-	-	1 891	-	-	-
Shareholder contribution - fair value of investment ⁽⁴⁾	-	-	-	48	-	-	-
Balance at the end of the reporting period	832 838	1 666	10 498	91 882	4 370	779	445

Notes

⁽¹⁾ The Group disposed of its controlling stake in a non-core subsidiary which was classified as held for sale.

⁽²⁾ As part of the disinvestment, Barclays PLC contributed R12.1bn in recognition of the investments required for the Group to separate from Barclays PLC. The contribution meets the definition of a transaction with a shareholder.

⁽³⁾ As part of the separation, Barclays PLC contributed cash of R 1 891m to the independent Absa Empowerment Trust to allow for its subsidiary to purchase 12 716 260 BAGL shares (1.5%) in the furtherance of the Group's objective of establishing a Broad-Based Black Empowerment structure. In terms of the requirements of IFRS, these shares have been accounted for as treasury shares and eliminated against the Group's share capital.

⁽⁴⁾ CLS Group Holding AG shares were transferred to Barclays PLC for no consideration in 2005. During the current reporting period these shares were transferred back to the Group for a nominal consideration of one British Pound Sterling (GBP). The shares have been recognised at a fair value of R48m. The related credit has been recognised in equity as a shareholder contribution.

⁽⁵⁾ The Additional Tier 1 Capital notes represent perpetual, subordinated instruments redeemable in full at the option of Barclays Africa Group Limited (the issuer) on 12 September 2022 subject to regulatory approval. Interest is paid at the discretion of the issuer and is non-cumulative. In addition, if certain conditions are reached, the regulator may prohibit the issuer from making interest payments. Accordingly, the instruments are classified as equity instruments.

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2017

Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share- based payment reserve Rm	Associates' and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non- controlling interest - ordinary shares Rm	Non- controlling interest - preference shares Rm	Non- controlling interest - Additional Tier 1 Capital ⁽⁵⁾ Rm	Total equity Rm
(144)	2 353	6	892	1 052	93 057	4 579	4 644	-	102 280
794	(1 922)	-	-	-	12 590	516	362	48	13 516
-	-	-	-	-	13 823	789	362	48	15 022
794	(1 922)	-	-	-	(1 233)	(273)	-	-	(1 506)
-	-	-	-	-	(8 821)	(567)	(362)	-	(9 750)
-	-	-	-	-	-	-	-	(48)	(48)
-	-	-	-	-	-	-	-	1 500	1 500
-	-	-	-	-	(729)	-	-	-	(729)
-	-	-	-	-	(2 412)	-	-	-	(2 412)
-	-	-	(55)	-	687	(4)	-	-	683
-	-	-	(742)	-	-	-	-	-	-
-	-	-	655	-	655	(4)	-	-	651
-	-	-	32	-	32	-	-	-	32
-	-	-	-	-	-	-	-	-	-
-	-	-	-	170	-	-	-	-	-
-	-	-	-	-	-	(24)	-	-	(24)
-	-	-	-	-	12 105	-	-	-	12 105
-	-	-	-	-	1 891	-	-	-	1 891
-	-	-	-	-	48	-	-	-	48
650	431	6	837	1 222	108 416	4 500	4 644	1 500	119 060

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	Number of ordinary shares '000	Share capital Rm	Share premium ¹ Rm	Retained earnings Rm	Total other reserves Rm	General credit risk reserve Rm	Available for-sale reserve Rm
Balance at the beginning of the reporting period	845 725	1 691	4 250	75 785	7 566	727	560
Total comprehensive income	-	-	-	14 496	(2 565)	-	(183)
Profit for the period	-	-	-	14 708	-	-	-
Other comprehensive income	-	-	-	(212)	(2 565)	-	(183)
Dividends paid during the reporting period	-	-	-	(8 536)	-	-	-
Distributions paid during the reporting period	-	-	-	-	-	-	-
Issuance of Additional Tier 1 Capital	-	-	-	-	-	-	-
Purchase of Group shares in respect of equity-settled share-based payment arrangements	-	-	(409)	(12)	-	-	-
Elimination of the movement in treasury shares held by Group entities	950	2	151	-	-	-	-
Movement in share-based payment reserve	-	-	409	-	163	-	-
Transfer from share-based payment reserve	-	-	409	-	(409)	-	-
Value of employee services	-	-	-	-	495	-	-
Conversion from cash-settled to equity-settled schemes	-	-	-	-	37	-	-
Deferred tax	-	-	-	-	40	-	-
Movement in general credit risk reserve	-	-	-	(30)	30	30	-
Movement in foreign insurance subsidiary regulatory reserve	-	-	-	16	(16)	-	-
Share of post-tax results of associates and joint ventures	-	-	-	(115)	115	-	-
Acquisition of subsidiaries ^{(1),(2)}	-	-	66	-	-	-	-
Disposal of non-controlling interest	-	-	-	-	-	-	-
Non-controlling interest arising from business combinations	-	-	-	-	-	-	-
Barclays separation	-	-	-	-	-	-	-
Contribution of share by Barclays PLC	-	-	-	-	-	-	-
Balance at the end of the reporting period	846 675	1 693	4 467	81 604	5 293	757	377

Notes

⁽¹⁾The excess of the purchase price over the Group's share of net assets of Barclays Africa Limited, acquired on 31 July 2013, was accounted for as a deduction against share premium. The sale and purchase agreement between the Group and Barclays Bank Plc allowed for the purchase price to be adjusted for certain items and in June 2016 an agreement was reached on the final purchase price adjustment. As a result Barclays Bank Plc paid R66m to the Group, which was recognised in equity, in line with the accounting of the original transaction.

⁽²⁾During the previous reporting period the Group acquired a 75% controlling stake in Absa Instant Life (Pty) Ltd which resulted in a R25m increase in non-controlling interest.

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2016										
Cash flow hedging reserve Rm	Foreign currency translation reserve Rm	Foreign insurance subsidiary regulatory reserve Rm	Share- based payment reserve Rm	Associates' and joint ventures' reserve Rm	Capital and reserves attributable to ordinary equity holders Rm	Non- controlling interest - ordinary shares Rm	Non- controlling interest - preference shares Rm	Non- controlling interest - Additional Tier 1 Capital Rm	Total equity Rm	
(1 870)	6 461	22	729	937	89 292	4 711	4 644	-	98 647	
1 726	(4 108)	-	-	-	11 931	403	351	-	12 685	
-	-	-	-	-	14 708	788	351	-	15 847	
1 726	(4 108)	-	-	-	(2 777)	(385)	-	-	(3 162)	
-	-	-	-	-	(8 536)	(562)	(351)	-	(9 449)	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	(421)	-	-	-	(421)	
-	-	-	-	-	153	-	-	-	153	
-	-	-	163	-	572	2	-	-	574	
-	-	-	(409)	-	-	-	-	-	-	
-	-	-	495	-	495	2	-	-	497	
-	-	-	37	-	37	-	-	-	37	
-	-	-	40	-	40	-	-	-	40	
-	-	-	-	-	-	-	-	-	-	
-	-	(16)	-	-	-	-	-	-	-	
-	-	-	-	115	-	-	-	-	-	
-	-	-	-	-	66	25	-	-	91	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	
(144)	2 353	6	892	1 052	93 057	4 579	4 644	-	102 280	

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Summary consolidated statement of cash flows

	Note	2017 Rm	2016 Rm
Net cash (utilised in)/generated from operating activities		(534)	6 962
Net cash utilised in investing activities		(2 634)	(4 201)
Net cash generated from/(utilised in) financing activities		2 593	(7 509)
Net cash generated from Barclays separation		12 105	-
Net cash utilised in other financing activities		(9 512)	(7 509)
Net decrease in cash and cash equivalents		(575)	(4 748)
Cash and cash equivalents at the beginning of the reporting period	1	17 734	21 366
Effect of foreign exchange rate movements on cash and cash equivalents		161	1 116
Cash and cash equivalents at the end of the reporting period	2	17 320	17 734

Notes to the summary consolidated statement of cash flows

1. Cash and cash equivalents at the beginning of the reporting period			
Cash, cash balances and balances with central banks ¹		13 141	12 899
Loans and advances to banks ²		4 593	8 467
		17 734	21 366
2. Cash and cash equivalents at the end of the reporting period			
Cash, cash balances and balances with central banks ¹		13 518	13 141
Loans and advances to banks ²		3 802	4 593
		17 320	17 734

Note

(1) Includes coins and bank notes.

(2) Includes call advances, which are used as working capital by the Group.

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1. Non-current assets and non-current liabilities held for sale

The following movements in non-current assets and non-current liabilities held for sale were effected during the current financial reporting period:

Retail Banking South Africa transferred loans and advances to customers of R1 118m and property and equipment of R1m to non-current assets held for sale. The Commercial Property Finance (CPF) Equity division in Business Banking South Africa disposed of a subsidiary with assets of R373m and liabilities of R26m out of non-current assets and non-current liabilities held for sale respectively. Business Banking South Africa further disposed of two investment properties with a total carrying value of R475m.

Rest of Africa banking transferred property with a carrying value of R3m to non-current assets held for sale.

CIB South Africa transferred investment securities with a carrying value of R547m to non-current assets held for sale. Prior to its disposal at a carrying value of R467m, a negative fair value adjustment of R80m was applied to the investment securities.

WIMI transferred two subsidiaries to non-current assets and non-current liabilities held for sale. The subsidiaries held assets of R139m and R14m, and liabilities of R34m and R14m respectively.

The following movements in non-current assets and non-current liabilities held for sale were effected during the previous financial reporting period:

RBB South Africa transferred investment properties with a total carrying value of R456m and a subsidiary with total assets of R367m and total liabilities of R9m to non-current assets and non-current liabilities held for sale. The Commercial Property Finance (CPF) Equity division disposed of an investment security and investment property with a carrying value of R15m and R64m respectively.

Head Office, Treasury and other operations in South Africa disposed of property and equipment with a carrying value of R94m.

WIMI transferred a consolidated structured entity with total assets of R245m and total liabilities of R233m out of non-current assets and non-current liabilities held for sale. This was done following a reassessment by management of the time expected to be taken to effect disposal.

CIB South Africa transferred investment securities with a carrying value of R1 136m out of non-current assets held for sale. This was done following a change in management intention with regards to disposal.

2. Loans and advances

Loans and advances	Performing loans			Non-performing loans			Net total exposure
	Exposure Rm	Impairment Rm	Coverage ratio %	Exposure Rm	Impairment Rm	Coverage ratio %	
South Africa Banking	655 131	4 556	0.70	25 887	10 503	40.57	665 959
RBB South Africa	436 694	3 997	0.92	23 868	9 671	40.52	446 895
Retail Banking South Africa	374 761	3 223	0.86	20 534	8 576	41.76	383 497
Credit cards	34 505	729	2.11	5 053	3 605	71.34	35 224
Instalment credit agreements	76 498	698	0.91	2 362	1 117	47.29	77 045
Loans to associates and joint ventures	23 037	-	-	-	-	-	23 037
Mortgages	215 467	1 124	0.52	10 353	2 073	20.02	222 623
Other loans and advances	739	-	-	-	-	-	739
Overdrafts	5 348	71	1.33	383	215	56.14	5 445
Personal and term loans	19 167	601	3.14	2 383	1 566	65.72	19 383
Business Banking South Africa	61 933	774	1.25	3 334	1 095	32.84	63 398
Mortgages (including CPF)	26 158	141	0.54	1 477	519	35.12	26 975
Overdrafts	19 863	396	1.99	1 082	374	34.57	20 175
Term loans	15 912	237	1.49	775	202	26.08	16 248
CIB South Africa	218 437	559	0.26	2 019	832	41.21	219 065
Rest of Africa Banking	76 738	981	1.28	4 742	2 636	55.59	77 863
WIMI	4 930	13	0.26	262	175	66.79	5 004
Head Office, Treasury and other operations in South Africa	956	10	1.05	-	-	-	946
Loans and advances to customers	737 755	5 560	0.75	30 891	13 314	43.10	749 772
Loans and advances to banks	55 426	-	-	-	-	-	55 426
	793 181	5 560	0.70	30 891	13 314	43.10	805 198

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Loans and advances	2016 ⁽¹⁾						
	Performing loans			Non-performing loans			Net total exposure Rm
	Exposure Rm	Impairment Rm	Coverage ratio %	Exposure Rm	Impairment Rm	Coverage ratio %	
South Africa Banking	626 700	4 707	0.75	25 719	11 001	42.77	636 711
RBB South Africa	425 122	4 063	0.96	23 454	9 817	41.86	434 696
Retail Banking South Africa	366 861	3 290	0.90	20 166	8 655	42.92	375 082
Credit cards	34 802	728	2.09	5 423	3 883	71.60	35 614
Instalment credit agreements	73 530	735	1.00	2 085	925	44.36	73 955
Loans to associates and joint ventures	18 933	-	-	-	-	-	18 933
Mortgages	216 955	1 213	0.56	10 029	2 109	21.03	223 662
Other loans and advances	510	-	-	-	-	-	510
Overdrafts	3 923	54	1.38	220	142	64.55	3 947
Personal and term loans	18 208	560	3.08	2 409	1 596	66.25	18 461
Business Banking South Africa	58 261	773	1.33	3 288	1 162	35.34	59 614
Mortgages (including CPF)	24 638	158	0.64	1 567	536	34.21	25 511
Overdrafts	18 307	366	2.00	929	421	45.32	18 449
Term loans	15 316	249	1.63	792	205	25.88	15 654
CIB South Africa	201 578	644	0.32	2 265	1 184	52.27	202 015
Rest of Africa Banking	75 991	1 246	1.64	5 262	2 687	51.06	77 320
WIMI	5 615	14	0.25	116	57	49.14	5 660
Head Office, Treasury and other operations in South Africa	622	4	0.64	-	-	-	618
Loans and advances to customers	708 928	5 971	0.84	31 097	13 745	44.20	720 309
Loans and advances to banks	49 790	-	-	-	-	-	49 790
	758 718	5 971	0.79	31 097	13 745	44.20	770 099

3. Borrowed funds

During the reporting period the significant movements in borrowed funds were as follows: R 2 841 m (31 December 2016: R2 381 m) of subordinated notes were issued and R2 805 m (31 December 2016: R1 78 m) were redeemed.

4. Other impairments

	2017 Rm	2016 Rm
Impairment/(Reversal) raised on financial instruments	5	(4)
Other	643	694
Goodwill	38	34
Intangible assets ⁽²⁾	384	618
Investments in associates and joint ventures	-	42
Property and equipment ⁽³⁾	221	-
	648	690

Notes

⁽¹⁾ These numbers have been restated - refer to the reporting changes overview in note 15.

⁽²⁾ The impairments incurred during the current reporting period mainly relates to computer software, Barclays.Net which was fully impaired. The prior period impairments relate to an acquired customer list which was fully impaired following an adjustment to the interest rate outlook for the related business and impairment of costs previously spent on the Virtual Bank initiative. In calculating the impairment to be recognised, the value in use was based on a discounted cash flow methodology.

⁽³⁾ During the current reporting period, management have decided to dispose of certain property and equipment resulting in an impairment of R221m.

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5. Headline earnings

	2017		2016	
	Gross Rm	Net ⁽¹⁾ Rm	Gross Rm	Net ⁽¹⁾ Rm
Headline earnings are determined as follows:				
Profit attributable to ordinary equity holders of the Group		13 823		14 708
Total headline earnings adjustment:		490		272
IFRS 3 – Goodwill impairment	38	38	34	34
IFRS 5 – Loss/(gain) on disposal of non-currents assets held for sale	36	39	(31)	(25)
IAS 16 – Profit on disposal of property and equipment	(43)	(34)	(29)	(21)
IAS 21 – Recycled foreign currency translation reserve	52	52	(320)	(297)
IAS 28 – Impairment of investments in associates and joint ventures	-	-	42	34
IAS 36 – Impairment of property and equipment	221	159	-	-
IAS 36 – Impairment of intangible assets	384	280	618	610
IAS 39 – Release of available-for-sale reserves	67	49	(3)	(2)
IAS 40 – Change in fair value of investment properties	(105)	(88)	(70)	(61)
IAS 40 – Profit on disposal of investment property	(5)	(5)	-	-
Headline earnings/diluted headline earnings		14 313		14 980
Headline earnings per share (cents)		1 716.7		1 796.6
Diluted headline earnings per share (cents)		1 716.5		1 796.4

IAS 33 *Earnings per share* prescribes that the weighted average number of shares outstanding during a reporting period, and for all periods presented, should be adjusted for events that change the number of ordinary shares outstanding without a corresponding change in resources. The contribution of cash by Barclays PLC and acquisition of BAGL shares by a subsidiary of the independent ABSA Empowerment Trust did not result in an adjustment to the net asset value of the Group. Refer to note 8. The weighted average number of shares outstanding in 2016 has been restated to reflect the acquisition from Barclays PLC of 12 716 260 (1.5%) BAGL shares in the current reporting period. The acquisition of shares has been treated as treasury shares from the beginning of 2016, which has led to a reduction in the number of ordinary shares outstanding for the purposes of determining the weighted average number of shares in the Headline earnings per shares and Diluted headline earnings per shares.

Note

(1) The net amount is reflected after taxation and non-controlling interest.

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6. Dividends per share

	2017 Rm	2016 Rm
Dividends declared to ordinary equity holders		
Interim dividend (28 July 2017: 475 cents) (29 July 2016: 460 cents)	4 027	3 900
Final dividend (1 March 2018: 595 cents) (23 February 2017: 570 cents)	5 044	4 832
	9 071	8 732
Dividends declared to ordinary equity holders (net of treasury shares)		
Interim dividend (28 July 2017: 475 cents) (29 July 2016: 460 cents)	4 024	3 888
Final dividend (1 March 2018: 595 cents) (23 February 2017: 570 cents)	4 955	4 820
	8 979	8 708
Dividends declared to non-controlling preference equity holders		
Interim dividend (28 July 2017: 3 684,06849 cents) (29 July 2016: 3 696,57534 cents)	182	183
Final dividend (1 March 2018: 3 558,01 cents) (23 February 2017: 3 644,79452 cents)	176	180
	358	363
Distributions declared to Additional Tier 1 Capital note holders		
Distribution (12 December 2017)	48	-
	48	-
Dividends paid to ordinary equity holders (net of treasury shares) ^{(1),(2)}		
Final dividend (10 April 2017: 570 cents) (11 April 2016: 550 cents)	4 832	4 648
Interim dividend (11 September 2017: 475 cents) (12 September 2016: 460 cents)	3 989	3 888
	8 821	8 536
Dividends paid to non-controlling preference equity holders ⁽²⁾		
Final dividend (10 April 2017: 3 644,79452 cents) (11 April 2016: 3 395,47945 cents)	180	168
Interim dividend (11 September 2017: 3 684,06849 cents) (12 September 2016: 3 696,57534 cents)	182	183
	362	351
Distributions paid to Additional Tier 1 Capital note holders		
Distribution (12 December 2017)	48	-
	48	-

Notes

⁽¹⁾ The dividends paid on treasury shares are calculated on payment date.

⁽²⁾ The dividend paid dates have been corrected to reflect date of payment. Previously these dates referred to date of declaration.

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7. Acquisitions and disposals of businesses and other similar transactions

7.1.1 Acquisitions of businesses during the current reporting period

There were no acquisitions of businesses during the current reporting period.

7.1.2 Disposals of businesses during the current reporting period

Apart from the businesses classified as non-current assets/liabilities held for sale and disposed of (refer to note 1) there were no other disposals of businesses that were finalised during the current reporting period. The cash consideration received on disposals included in non-current assets/liabilities held for sale was R205m.

7.2.1 Acquisitions of businesses during the previous reporting period

In order to continue building and shaping the Group's predictive underwriting products, expertise and technology, the Group acquired a 75% controlling stake in Absa Instant Life Proprietary Limited, previously known as Instant Life Proprietary Limited. The investment had an effective acquisition date of 31 March 2016 and is a business combination within the scope of IFRS 3. The acquisition date fair value of the consideration transferred amounted to R100m.

The non-controlling interest below was measured at their proportionate share of the acquiree's identifiable net assets. Goodwill of R20m has been recognised and includes, but is not limited to, the insurer's workforce and the increased market share gained.

From the date of acquisition, Absa Instant Life contributed revenue of R9m to the total income earned by the Group. If the combination had taken place at the beginning of the year, an additional R5m would have been generated by the Group, thereby resulting in a total income of R14m. From the date of acquisition, Absa Instant Life contributed losses after tax of R12m to total profits earned by the Group. If the combination had taken place at the beginning of the year, losses after tax of an additional R3m would have been incurred by the Group, thereby resulting in a total loss after tax of R15m.

	Instant Life 2016 Fair value recognised on acquisition Rm	Group Rm
Consideration at date of acquisition:		
Cash	100	100
Total consideration	100	100
Recognised amounts of identifiable assets acquired and liabilities assumed		
Loans and advances to banks	6	6
Other assets	14	14
Intangible assets	125	125
Other liabilities	(5)	(5)
Deferred tax liabilities	(32)	(32)
Provisions	(1)	(1)
Total identifiable net assets	107	107
Total non-controlling interest	(27)	(27)
Goodwill	20	20
Total	100	100

A summary of the total net cash outflow and cash and cash equivalents related to acquisitions and disposals of businesses and other similar transactions is included below:

	2017 Rm	2016 Rm
Summary of net cash outflow due to acquisitions	-	100

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7.2.2 Disposals of businesses during the previous reporting period

There were no disposals of businesses during the previous reporting period.

8. Related parties

As part of the separation, Barclays PLC sold ordinary Barclays Africa Group Limited shares representing 12.2% and 33.7% of issued ordinary share capital in May 2016 and June 2017 respectively. Barclays PLC currently holds 126.2m ordinary Barclays Africa Group Limited shares representing 14.9% of issued ordinary shares. The remaining 85.1 % of the shares are widely held on the JSE.

Barclays PLC contributed £765 million to the Group, primarily in recognition of the investments required for the Group to separate from Barclays PLC. This contribution will be invested primarily in rebranding, technology and separation-related projects and it is expected that it will neutralise the capital and cash flow impact of separation investments on the Group over time.

Barclays PLC contributed cash of R1 891 m to be used in the furtherance of the Group's objective of establishing Broad-Based Black Economic Empowerment structure. The cash was contributed to the independent Absa Empowerment Trust, whose subsidiary purchased 12 716 260 BAGL shares. In terms of the requirements of IFRS, these shares have been accounted for as treasury shares and eliminated against the Group's share capital.

CLS Group Holding AG shares were transferred to Barclays PLC for no consideration in 2005. During the current reporting period these shares were transferred back to the Group for a nominal consideration of one British Pound (GBP). The shares have been recognised at a fair value of R48m. The related credit has been recognised in equity as a shareholder contribution.

9. Financial guarantee contracts

	31 December	
	2017 Rm	2016 Rm
Financial guarantee contracts	10	10

Financial guarantee contracts represent contracts where the Group undertakes to make specified payments to a counterparty, should the counterparty suffer a loss as a result of a specified debtor failing to make payment when due in accordance with the terms of a debt instrument. This amount represents the maximum off-statement of financial position exposure.

10. Commitments

	2017 Rm	2016 Rm
Authorised capital expenditure		
Contracted but not provided for	270	521
The Group has capital commitments in respect of computer equipment, software and property development. Management is confident that future net revenues and funding will be sufficient to cover these commitments.		
Operating lease payments due		
No later than one year	1 365	1 309
Later than one year and no later than five years	3 056	2 946
Later than five years	948	1 228
	5 369	5 483

The operating lease commitments comprise a number of separate operating leases in relation to property and equipment, none of which is individually significant to the Group. Leases are negotiated for an average term of three to five years and rentals are renegotiated annually.

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11. Contingencies

	31 December	
	2017	2016
	Rm	Rm
Guarantees	38 789	38 441
Irrevocable debt facilities	162 907	135 935
Irrevocable equity facilities	33	141
Letters of credit	7 814	8 481
Other	262	135
	209 805	183 133

Guarantees include performance guarantee contracts and payment guarantee contracts.

Irrevocable facilities are commitments to extend credit where the Group does not have the right to terminate the facilities by written notice. Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Legal proceedings

The Group has been party to proceedings against it during the reporting period, and as at the reporting date the following material cases are disclosed:

>Pinnacle Point Holdings Proprietary Limited (PPG): New Port Finance Company and the trustees of the Winifred Trust (the plaintiffs) allege a local bank conducted itself unlawfully, and that Absa Bank Limited (the Bank) was privy to such conduct. They have instituted proceedings against the Bank for damages in an amount of R1 387m. Although Pinnacle Point Holding's claim has been withdrawn, the second to fifth plaintiff's claims remain and will proceed to trial.

>Ayanda Collective Investment Scheme (the Scheme): Absa Capital Investor Services was the trustee of Ayanda Collective Investment Scheme, in which Corporate Money Managers (CMM) managed a portfolio of assets within the Scheme. The joint curators of the CMM group of companies and the Altron Pension Fund (an investor in the fund) allege that the defendants caused damages to them arising from their alleged failure to meet their obligations in the trust deed together with their statutory obligations set out in the Collective Investment Scheme Act, in respect of which they seek payment of R1 157m.

>On June 19, 2017, the Public Protector released the final report of her office's investigation into the Bankorp assistance package provided by the SA Reserve Bank between 1985 and 1995, recommending certain remedial action. Absa acquired Bankorp in April 1992, for fair value, and had the responsibility of carrying out its existing legal obligations to the SARB, which were met in full by October 1995. In consequence, Absa, together with the SARB, Minister of Finance and National Treasury, brought an application to review and set aside the remedial action recommended in the Public Protector's report which was successful and the report was thus set aside.

The Group is engaged in various other legal, competition and regulatory matters both in South Africa and a number of other jurisdictions. It is involved in legal proceedings which arise in the ordinary course of business from time to time, including (but not limited to) disputes in relation to contracts, securities, debt collection, consumer credit, fraud, trusts, client assets, competition, data protection, money laundering, employment, environmental and other statutory and common law issues.

The Group is also subject to enquiries and examinations, requests for information, audits, investigations and legal and other proceedings by regulators, governmental and other public bodies in connection with (but not limited to) consumer protection measures, compliance with legislation and regulation, wholesale trading activity and other areas of banking and business activities in which the Group is or has been engaged.

At the present time, the Group does not expect the ultimate resolution of any of these other matters to have a material adverse effect on its financial position. However, in light of the uncertainties involved in such matters and the matters specifically described in this note, there can be no assurance that the outcome of a particular matter or matters will not be material to the Group's results of operations or cash flow for a particular period, depending on, amongst other things, the amount of the loss resulting from the matter(s) and the amount of income otherwise reported for the reporting period.

The Group has not disclosed the contingent liabilities associated with these matters either because they cannot reasonably be estimated or because such disclosure could be prejudicial to the outcome of the matter. Provision is made for all liabilities which are expected to materialise.

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Regulatory matters

The scale of regulatory change remains challenging and the global financial crisis has resulted in a significant tightening of regulation and changes to regulatory structures globally and locally, especially for companies that are deemed to be of systemic importance. Concurrently, there is continuing political and regulatory scrutiny of the operation of the banking and consumer credit industries globally which, in some cases, is leading to increased regulation. The nature and impact of future changes in the legal framework, policies and regulatory action especially in the areas of financial crime, banking and insurance regulation, cannot currently be fully predicted and are beyond the Group's control. Some of these are likely to have an impact on the Group's businesses, systems and earnings.

The Group is continuously evaluating its programmes and controls in general relating to compliance with regulation. The Group undertakes monitoring, review and assurance activities, and the Group has also adopted appropriate remedial and/or mitigating steps, where necessary or advisable, and has made disclosures on material findings as and when appropriate.

Absa Bank Limited, a subsidiary of Barclays Africa Group Limited, identified potentially fraudulent activity by certain of its customers using advance payments for imports in 2014 and 2015 to effect foreign exchange transfers from South Africa to beneficiary accounts located in East Asia, UK, Europe and the US. As a result, the Group conducted a review of relevant activity, processes, systems and controls. The Group is continuing to provide information to relevant authorities as part of the Group's ongoing cooperation. It is not currently practicable to provide an estimate of the financial impact of the actions described on the Group or what effect that they might have upon the Group's operating results, cash flows or financial position in any particular period, if any.

In February 2017 the South African Competition Commission (SACC) referred Barclays PLC, BCI and Absa Bank Limited, a subsidiary of Barclays Africa Group Limited, among other banks, to the Competition Tribunal to be prosecuted for breaches of South African antitrust law related to Foreign Exchange trading of South African Rand. The SACC found from its investigation that between 2007 and 2013 the banks had engaged in various forms of collusive behaviour. Barclays was the first to bring the conduct to the attention of the SACC under its leniency programme and has cooperated with, and will continue to cooperate with, the SACC in relation to this matter. The SACC is therefore not seeking an order from the Tribunal to impose any fine on Barclays PLC, BCI or Absa Bank Limited.

Income Taxes

The Group is subject to income taxes in numerous jurisdictions and the calculation of the Group's tax charge and provisions for income taxes necessarily involves a degree of estimation and judgement. There are many transactions and calculations for which the ultimate tax treatment is uncertain or in respect of which the relevant tax authorities may have indicated disagreement with the Group's treatment and accordingly the final tax charge cannot be determined until resolution has been reached with the relevant tax authority.

The Group recognises provisions for anticipated tax audit issues based on estimates of whether additional taxes will be due after taking into account external advice where appropriate. The carrying amount of any resulting provisions will be sensitive to the manner in which tax matters are expected to be resolved, and the stage of negotiations or discussion with the relevant tax authorities. There may be significant uncertainty around the final outcome of tax proceedings, which in many instances, will only be concluded after a number of years. Management estimates are informed by a number of factors including, inter alia, the progress made in discussions or negotiations with the tax authorities, the advice of expert legal counsel, precedent set by the outcome of any previous claims, as well as the nature of the relevant tax environment.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the reporting period in which such determination is made. These risks are managed in accordance with the Group's Tax Risk Framework.

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12. Segment reporting

	2017 Rm	2016 ¹ Rm
12.1 Headline earnings contribution by segment		
South Africa Banking	12 200	11 678
RBB South Africa	8 874	8 822
CIB South Africa	3 326	2 856
Rest of Africa Banking	2 954	2 756
WIMI	1 156	1 258
Head Office, Treasury and other operations South Africa	(752)	(712)
Barclays separation	(1 245)	-
	14 313	14 980
12.2 Total income by segment		
South Africa Banking	53 345	52 209
RBB South Africa	42 724	41 932
CIB South Africa	10 621	10 277
Rest of Africa Banking	15 617	16 044
WIMI	5 490	5 221
Head Office, Treasury and other operations South Africa	(1 552)	(1 080)
Barclays separation	405	-
	73 305	72 394
12.3 Total internal income by segment		
South Africa Banking	(17 150)	(14 347)
RBB South Africa	(9 157)	(9 571)
CIB South Africa	(7 993)	(4 776)
Rest of Africa Banking	(241)	(20)
WIMI	(471)	(382)
Head Office, Treasury and other operations South Africa	17 537	14 749
Barclays separation	325	-
	-	-
12.4 Total assets by segment		
South Africa Banking	1 228 162	1 167 067
RBB South Africa	754 227	730 533
CIB South Africa	473 935	436 534
Rest of Africa Banking	162 720	161 481
WIMI	50 682	51 007
Head Office, Treasury and other operations South Africa	(276 497)	(278 532)
Barclays separation	912	-
	1 165 979	1 101 023

Note
⁽¹⁾ Operational changes, management changes and associated changes to the way in which the chief operating decision maker views the performance of each business segment, have resulted in the reallocation of earnings, assets and liabilities between operating segments. Refer to Note 15.

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	2017 Rm	2016 ⁽¹⁾ Rm
12.5 Total liabilities by segment		
South Africa Banking	1 209 021	1 149 510
RBB South Africa	741 802	718 740
CIB South Africa	467 219	430 770
Rest of Africa Banking	142 394	140 704
WIMI	45 837	45 692
Head Office, Treasury and other operations South Africa	(340 493)	(337 163)
Barclays separation ⁽²⁾	(9 840)	-
	1 046 919	998 743

Note

(1) Operational changes, management changes and associated changes to the way in which the chief operating decision maker views the performance of each business segment, have resulted in the reallocation of earnings, assets and liabilities between operating segments. Refer to Note 15.

(2) This presents the cash contribution received from Barclays PLC, net of amounts already spent on separation activities. The cash received is held centrally by Treasury and is presented as an intersegmental asset in "Other liabilities".

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13. Assets and liabilities not held at fair value

The following table summarises the carrying amounts and fair value of those assets and liabilities not held at fair value.

	2017		2016 ⁽¹⁾	
	Carrying value Rm	Fair value Rm	Carrying value Rm	Fair value Rm
Financial assets				
Balances with other central banks	10 281	10 281	13 395	13 395
Balances with the South African Reserve Bank	19 109	19 109	18 552	18 552
Coins and bank notes	13 519	13 519	13 141	13 141
Money market assets	-	-	38	38
Cash, cash balances and balances with central banks	42 909	42 909	45 126	45 126
Loans and advances to banks	38 228	39 037	29 932	29 827
Other assets	17 486	17 556	22 120	22 188
South Africa Banking	640 009	640 241	612 638	612 531
RBB South Africa	447 752	447 984	434 590	434 483
Retail Banking South Africa	383 495	383 727	375 082	374 973
Credit cards	35 223	35 224	35 614	35 614
Instalment credit agreements	77 044	77 275	73 955	73 650
Loans to associates and joint ventures	23 037	23 037	18 933	18 933
Mortgages	222 625	222 625	223 662	223 674
Other loans and advances	740	740	510	510
Overdrafts	5 443	5 443	3 947	3 947
Personal and term loans	19 383	19 383	18 461	18 645
Business Banking South Africa	64 257	64 257	59 508	59 510
Mortgages (including CPF)	27 833	27 833	25 406	25 408
Overdrafts	19 199	19 199	18 448	18 448
Term loans	17 225	17 225	15 654	15 654
CIB South Africa	192 257	192 257	178 048	178 048
Rest of Africa Banking	77 005	77 137	77 320	77 320
WIMI	5 004	5 004	5 660	5 660
Head Office, Treasury and other operations in South Africa	943	943	615	615
Loans and advances to customers – net of impairment losses	722 961	723 325	696 233	696 126
Non-current assets held for sale	1 118	1 118	-	-
Total assets	822 702	823 945	793 411	793 267
Financial liabilities				
Deposits from banks	54 835	54 915	44 107	44 107
Other liabilities	27 833	27 832	23 600	23 584
Call deposits	81 076	81 076	62 426	62 426
Cheque account deposits	191 048	191 048	200 367	200 367
Credit card deposits	1 921	1 921	1 906	1 906
Fixed deposits	148 328	148 328	153 295	153 358
Foreign currency deposits	28 418	28 418	24 825	24 825
Notice deposits	58 459	58 459	59 358	59 371
Other deposits	2 629	2 629	3 189	3 189
Saving and transmission deposits	157 098	157 098	152 378	152 378
Deposits due to customers	668 977	668 977	657 744	657 820
Debt securities in issue	132 891	132 891	134 197	134 197
Borrowed funds	15 895	15 895	15 673	15 893
Total liabilities	900 431	900 510	875 321	875 601

Note

⁽¹⁾ These numbers have been restated, refer to note 15.

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14. Assets and liabilities held at fair value

14.1 Fair value measurement and valuation processes

Financial assets and financial liabilities

The Group has an established control framework with respect to the measurement of fair values. The framework includes a Traded Risk and Valuations Committee and an Independent Valuation Control team (IVC), which is independent from the front office.

The Traded Risk and Valuations Committee, which comprises representatives from senior management, will formally approve valuation policies and any changes to valuation methodologies. Significant valuation issues are reported to the Barclays Africa Group Audit and Compliance Committee.

The Traded Risk and Valuations Committee is responsible for overseeing the valuation control process and will therefore consider the appropriateness of valuation techniques and inputs for fair value measurement.

The IVC team independently verifies the results of trading and investment operations and all significant fair value measurements. They source independent data from external independent parties, as well as internal risk areas when performing independent price verification for all financial instruments held at fair value. They also assess and document the inputs obtained from external independent sources to measure the fair value which supports conclusions that valuations are performed in accordance with IFRS and internal valuation policies.

Investment properties

The fair value of investment properties is determined based on the most appropriate methodology applicable to the specific property. Methodologies include the market comparable approach that reflects recent transaction prices for similar properties, discounted cash flows and income capitalisation methodologies. In estimating the fair value of the properties, the highest and best use of the properties is taken into account.

Where possible the fair value of the Group's investment properties is determined through valuations performed by external independent valuers.

When the Group's internal valuations are different to that of the external independent valuers, detailed procedures are performed to substantiate the differences, whereby the IVC team verifies the procedures performed by the front office and considers the appropriateness of any differences to external independent valuations.

14.2 Fair value measurements

Valuation inputs

IFRS 13 requires an entity to classify fair values measured and/or disclosed according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined as follows:

Quoted market prices – Level 1

Fair values are classified as Level 1 if they have been determined using observable prices in an active market. Such fair values are determined with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Valuation technique using observable inputs – Level 2

Fair values are classified as Level 2 if they have been determined using models for which inputs are observable in an active market.

A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price.

Valuation technique using significant unobservable inputs – Level 3

Fair values are classified as Level 3 if their determination incorporates significant inputs that are not based on observable market data (unobservable inputs). An input is deemed significant if it is shown to contribute more than 10% to the fair value of an item. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Judgemental inputs on valuation of principal instruments

The following summary sets out the principal instruments whose valuation may involve judgemental inputs:

Debt securities and treasury and other eligible bills

These instruments are valued, based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined by reference to quoted market prices for similar instruments or, in the case of certain mortgage-backed

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securities, valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

Equity instruments

Equity instruments are valued, based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined by reference to quoted market prices for similar instruments or by using valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

Also included in equity instruments are non-public investments, which include investments in venture capital organisations. The fair value of these investments is determined using appropriate valuation methodologies which, dependent on the nature of the investment, may include discounted cash flow analysis, enterprise value comparisons with similar companies and price:earnings comparisons. For each investment, the relevant methodology is applied consistently over time.

Derivatives

Derivative contracts can be exchange-traded or traded over-the-counter (OTC). OTC derivative contracts include forward, swap and option contracts related to interest rates, bonds, foreign currencies, credit spreads, equity prices and commodity prices or indices on these instruments. Fair values of derivatives are obtained from quoted market prices, dealer price quotations, discounted cash flow and option pricing models.

Loans and advances

The disclosed fair value of loans and advances to banks and customers is determined by discounting contractual cash flows. Discount factors are determined using the relevant forward base rates (as at valuation date) plus the originally priced spread. Where a significant change in credit risk has occurred, an updated spread is used to reflect valuation date pricing. Behavioural cash flow profiles, instead of contractual cash flow profiles, are used to determine expected cash flows where contractual cash flow profiles would provide an inaccurate fair value.

Deposits, debt securities in issue and borrowed funds

Deposits, debt securities in issue and borrowed funds are valued using discounted cash flow models, applying rates currently offered for issuances with similar characteristics. Where these instruments include embedded derivatives, the embedded derivative component is valued using the methodology for derivatives as detailed above.

The fair value of amortised cost deposits repayable on demand is considered to be equal to their carrying value. For other financial liabilities at amortised cost the disclosed fair value approximates the carrying value because the instruments are short term in nature or have interest rates that reprice frequently.

14.3 Fair value adjustments

The main valuation adjustments required to arrive at a fair value are described below:

Bid-offer valuation adjustments

For assets and liabilities where the Group is not a market maker, mid prices are adjusted to bid and offer prices respectively. Bid-offer adjustments reflect expected close out strategy and, for derivatives, the fact that they are managed on a portfolio basis. The methodology for determining the bid-offer adjustment for a derivative portfolio will generally involve netting between long and short positions and the bucketing of risk by strike and term in accordance with hedging strategy. Bid-offer levels are derived from market sources, such as broker data. For those assets and liabilities where the firm is a market maker and has the ability to transact at, or better than, mid-price (which is the case for certain equity, bond and vanilla derivative markets), the mid-price is used, since the bid-offer spread does not represent a transaction cost.

Uncollateralised derivative adjustments

A fair value adjustment is incorporated into uncollateralised derivative valuations to reflect the impact on fair value of counterparty credit risk, the Group's own credit quality, as well as the cost of funding across all asset classes.

Model valuation adjustments

Valuation models are reviewed under the Group's model governance framework. This process identifies the assumptions used and any model limitations (for example, if the model does not incorporate volatility skew). Where necessary, fair value adjustments will be applied to take these factors into account. Model valuation adjustments are dependent on the size of portfolio, complexity of the model, whether the model is market standard and to what extent it incorporates all known risk factors. All models and model valuation adjustments are subject to review on at least an annual basis.

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14.4 Fair value hierarchy

The following table shows the Group's assets and liabilities that are recognised and subsequently measured at fair value and are analysed by valuation techniques. The classification of assets and liabilities is based on the lowest level input that is significant to the fair value measurement in its entirety.

Recurring fair value measurements	2017				2016			
	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
Financial Assets								
Cash, cash balances and balances with central banks	1 839	3 921	-	5 760	2 388	2 492	-	4 880
Investment securities	53 068	50 740	7 601	111 409	60 051	50 906	3 358	114 315
Loans and advances to banks	-	16 714	484	17 198	-	19 286	571	19 857
Trading and hedging portfolio assets	54 966	76 015	1 824	132 805	33 572	61 419	1 505	96 496
Debt instruments	29 668	5 133	177	34 978	15 689	6 740	1 324	23 753
Derivative assets	-	58 980	546	59 526	-	46 717	181	46 898
Commodity derivatives	-	981	124	1 105	-	797	-	797
Credit derivatives	-	-	165	165	-	70	114	184
Equity derivatives	-	2 371	173	2 544	-	1 540	67	1 607
Foreign exchange derivatives	-	15 878	8	15 886	-	15 221	-	15 221
Interest rate derivatives	-	39 750	76	39 826	-	29 089	-	29 089
Equity instruments	23 662	-	-	23 662	17 883	-	-	17 883
Money market assets	1 636	11 902	1 101	14 639	-	7 962	-	7 962
Other assets	-	2	2	4	-	4	5	9
Loans and advances to customers	-	22 070	4 741	26 811	-	19 186	4 890	24 076
Investments linked to investment contracts	17 906	1 030	-	18 936	16 335	2 481	-	18 816
Total financial assets	127 779	170 492	14 652	312 923	112 346	155 774	10 329	278 449
Financial liabilities								
Deposits from banks	-	12 555	-	12 555	-	9 085	-	9 085
Trading and hedging portfolio liabilities	11 946	52 279	945	65 170	6 508	42 677	308	49 493
Derivative liabilities	-	52 279	945	53 224	-	42 677	308	42 985
Commodity derivatives	-	1 172	121	1 293	-	875	-	875
Credit derivatives	-	10	148	158	-	137	101	238
Equity derivatives	-	1 973	423	2 396	-	1 306	60	1 366
Foreign exchange derivatives	-	14 874	4	14 878	-	14 173	-	14 173
Interest rate derivatives	-	34 250	249	34 499	-	26 186	147	26 333
Short positions	11 946	-	-	11 946	6 508	-	-	6 508
Other liabilities	-	3	5	8	-	4	41	45
Deposits due to customers	203	19 115	1 572	20 890	154	15 828	1 139	17 121
Debt securities in issue	214	4 355	488	5 057	261	4 652	604	5 517
Liabilities under investment contracts	-	30 585	-	30 585	-	29 055	-	29 055
Total financial liabilities	12 363	118 892	3 010	134 265	6 923	101 301	2 092	110 316
Non-financial assets								
Commodities	2 051	-	-	2 051	1 485	-	-	1 485
Investment properties	-	-	231	231	-	-	478	478
Non-recurring fair value measurements								
Non-current assets held for sale ⁽¹⁾	-	-	190	190	-	-	823	823
Non-current liabilities held for sale ⁽¹⁾	-	-	48	48	-	-	9	9

⁽¹⁾ Includes certain items classified in terms of the requirements of IFRS 5 which are measured in terms of their respective standards.

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14.5 Measurement of assets and liabilities categorised at Level 2

The following table presents information about the valuation techniques and significant observable inputs used in measuring assets and liabilities categorised as Level 2 in the fair value hierarchy:

Category of asset/liability	Valuation techniques applied	Significant observable inputs
Loans and advances to banks	Discounted cash flow models	Interest rate and/or money market curves
Trading and hedging portfolio assets and liabilities		
Debt instruments	Discount cash flow models	Underlying price of market traded instruments and interest rates
Derivatives		
Commodity derivatives	Discounted cash flow model, option pricing, futures pricing and/or Exchange Traded Fund (ETF) models	Spot price of physical or futures, interest rates and/or volatility
Credit derivatives	Discounted cash flow and/or option pricing models	Interest rate, recovery rate, credit spread and/or quanto ratio
Equity derivatives	Discounted cash flow model, option pricing and/or futures pricing models	Spot price, interest rate, volatility and/or dividend stream
Foreign exchange derivatives	Discounted cash flow and/or option pricing models	Spot price, interest rate and/or volatility
Interest rate derivatives	Discounted cash flow and/or option pricing models	Interest rate curves, repurchase agreement curves, money market curves and/or volatility
Money market assets	Discounted cash flow models	Money market rates and/or interest rates
Loans and advances to customers	Discounted cash flow models	Interest rate and/or money market curves
Investment securities and investments linked to investment contracts	Listed equity: market bid price. Other items: discounted cash flow models	Underlying price of the market traded instrument and/or interest rate curves
Deposits from banks	Discounted cash flow models	Interest rate curves and/or money market curves
Deposits due to customers	Discounted cash flow models	Interest rate curves and/or money market curves
Debt securities in issue and other liabilities	Discounted cash flow models	Underlying price of the market traded instrument and/or interest rate curves

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14.6 Reconciliation of Level 3 assets and liabilities

A reconciliation of the opening balances to closing balances for all movements on Level 3 assets and liabilities is set out below:

	2017						
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers Rm	Loans and advances to banks Rm	Investment securities Rm	Investment properties Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	1 505	5	4 890	571	3 358	478	10 807
Net interest income	-	-	12	-	62	-	74
Other income	-	-	-	-	-	12	12
Gains and losses from banking and trading activities	(635)	-	29	-	-	-	(606)
Gains and losses from investment activities	-	-	-	-	2	-	2
Purchases	1 101	-	1 020	88	4 832	1	7 042
Sales	(147)	-	(1 112)	(175)	(579)	(260)	(2 273)
Movement in other comprehensive income	-	-	-	-	29	-	29
Settlements	-	(3)	-	-	(22)	-	(25)
Transfer in/(out) of Level 3	-	-	(98)	-	(81)	-	(179)
Closing balance at the end of the reporting period	1 824	2	4 741	484	7 601	231	14 883

	2016						
	Trading and hedging portfolio assets Rm	Other assets Rm	Loans and advances to customers ⁽¹⁾ Rm	Loans and advances to banks Rm	Investment securities Rm	Investment properties Rm	Total assets at fair value Rm
Opening balance at the beginning of the reporting period	1 418	25	7 511	2 109	3 966	1 264	16 293
Net interest income	-	-	232	-	56	-	288
Other income	-	-	-	-	-	17	17
Gains and losses from banking and trading activities	112	-	65	(140)	(1 079)	-	(1 042)
Gains and losses from investment activities	-	-	-	-	106	-	106
Purchases	1 308	(3)	-	70	543	28	1 946
Sales	(1 333)	(17)	(1 956)	(1 468)	(233)	(83)	(5 090)
Movement in other comprehensive income	-	-	-	-	(80)	-	(80)
Transferred to/(from) assets/liabilities	-	-	-	-	1 136	(748)	388
Transfer out of Level 3	-	-	(962)	-	(1 057)	-	(2 019)
Closing balance at the end of the reporting period	1 505	5	4 890	571	3 358	478	10 807

Note:

⁽¹⁾ The gains and losses from banking and trading activities on loans and advances to customers for 2016 have been restated by R65m to include the movement in the unrealised gains relating to the base rates applicable to the assets. Previously only unrealised gains relating to the unobservable credit spreads for these assets were taken into account in the disclosure.

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2017

	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
Opening balance at the beginning of the reporting period	-	308	41	1 139	604	2 092
Net interest income	-	-	-	7	-	7
Gains and losses from banking and trading activities	-	585	-	-	-	585
Movement in other comprehensive income	-	-	-	-	-	-
Issues	-	52	-	1 685	30	1 767
Settlements	-	-	(36)	(1 144)	(68)	(1 248)
Transferred to/(from) assets/liabilities	-	-	-	-	-	-
Transfer in/(out) of Level 3	-	-	-	(115)	(78)	(193)
Closing balance at the end of the reporting period	-	945	5	1 572	488	3 010

2016

	Deposits from banks Rm	Trading and hedging portfolio liabilities Rm	Other liabilities Rm	Deposits due to customers Rm	Debt securities in issue Rm	Total liabilities at fair value Rm
Opening balance at the beginning of the reporting period	7	217	5	2 557	624	3 410
Net interest income	-	-	-	-	-	-
Gains and losses from banking and trading activities	-	91	-	-	-	91
Gains and losses from investment activities	-	-	-	139	(9)	130
Issues	-	-	36	1 953	-	1 989
Settlements	(7)	-	-	(3 510)	(11)	(3 528)
Transfer in/(out) of Level 3	-	-	-	-	-	-
Closing balance at the end of the reporting period	-	308	41	1 139	604	2 092

14.6.1 Significant transfers between levels

During the 2017 and 2016 reporting periods, transfers between levels occurred because of changes in the observability of valuation inputs, in some instances owing to changes in the level of market activity. Transfers have been reflected as if they had taken place at the beginning of the year.

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14.7 Unrealised gains and losses on Level 3 assets and liabilities

The total unrealised gains and losses for the reporting period on Level 3 positions held at the reporting date are set out below:

2017						
	Trading and hedging portfolio assets Rm	Loans and advances to customers Rm	Investment securities Rm	Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Total liabilities at fair value Rm
Gains and losses from banking and trading activities	67	761	60	888	284	284

2016						
	Trading and hedging portfolio assets Rm	Loans and advances to customers ⁽¹⁾ Rm	Investment securities Rm	Total assets at fair value Rm	Trading and hedging portfolio liabilities Rm	Total liabilities at fair value Rm
Gains and losses from banking and trading activities	3	731	29	763	86	86

14.8 Sensitivity analysis of valuations using unobservable inputs

As part of the Group's risk management processes, stress tests are applied on the significant unobservable parameters to generate a range of possible alternative valuations. The assets and liabilities that most impact this sensitivity analysis are those with the more illiquid and/or structured portfolios. The stresses are applied independently and do not take account of any cross correlation between separate asset classes that would reduce the overall effect on the valuations.

The following table reflects how the unobservable parameters were changed in order to evaluate the sensitivities of Level 3 financial assets and liabilities:

Significant unobservable parameter	Positive/(negative) variance applied to parameters
Credit spreads	100/(100) bps
Volatilities	10/(10)%
Basis curves	100/(100) bps
Yield curves and repo curves	100/(100) bps
Future earnings and marketability discounts	15/(15)%
Funding spreads	100/(100) bps

A significant parameter has been deemed to be one which may result in a charge to profit or loss, or a change in the fair value asset or liability by more than 10% or the underlying value of the affected item. This is demonstrated by the following sensitivity analysis which includes reasonable range of possible outcomes:

Note:

⁽¹⁾ The unrealised gains and losses for loans and advances to customers for 2016 have been restated by R696m to include the unrealised gains relating to the base rates applicable to the assets. Previously only unrealised gains relating to the unobservable credit spreads for these assets were taken into account in the disclosure.

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		2017	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
Significant unobservable parameters		Favourable/(Unfavourable)	Favourable/(Unfavourable)
		Rm	Rm
Deposits due to banks	BAGL/Absa funding spread	17/(17)	-/-
Deposits due to customers	BAGL/Absa funding spread	13/(12)	-/-
Investment securities and investments linked to investment contracts	Risk adjustment yield curves, future earnings and marketability discount	76/(76)	323/(306)
Loans and advances to customers	Credit spreads	70/(69)	-/-
Other assets	Credit spreads	-/-	-/-
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	33/(33)	-/-
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	17/(17)	-/-
Other liabilities	Volatility, credit spreads	-/-	-/-
		226/(224)	323/(306)

		2016	
		Potential effect recorded in profit or loss	Potential effect recorded directly in equity
Significant unobservable parameters		Favourable/(Unfavourable)	Favourable/(Unfavourable)
		Rm	Rm
Deposits due to customers	BAGL/Absa funding spread	-/-	-/-
Investment securities and investments linked to investment contracts	Risk adjustment yield curves, future earnings and marketability discount	34/(36)	94/(100)
Loans and advances to customers	Credit spreads	72/(71)	-/-
Other assets	Credit spreads	-/-	-/-
Trading and hedging portfolio assets	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	175/(175)	-/-
Trading and hedging portfolio liabilities	Volatility, credit spreads, basis curves, yield curves, repo curves, funding spreads	20/(20)	-/-
Other liabilities	Volatility, credit spreads	-/-	-/-
		301/(302)	94/(100)

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14.9 Measurement of assets and liabilities at Level 3

The following table presents information about the valuation techniques and significant unobservable inputs used in measuring assets and liabilities categorised as Level 3 in the fair value hierarchy:

		2017		2016
Category of asset/liability	Valuation techniques applied	Significant unobservable inputs	Range of estimates utilised for the unobservable inputs	
Loans and advances to banks and customers	Discounted cash flow and/or dividend yield models	Credit spreads	0,3% to 2,3%	0,5% to 5%
Investment securities and investments linked to investment contracts	Discounted cash flow models, third-party valuations, earnings multiples and/or income capitalisation valuations	Risk adjusted yield curves, future earnings, marketability discounts and/or comparator multiples	Discount rates between 7% to 9%, comparator multiples between 5 and 10,5	Discount rate of 13%, comparator multiples between 5 and 10,5
Trading and hedging portfolio assets and liabilities				
Debt instruments	Discounted cash flow models	Credit spreads	3% to 15%	1,2% to 11,2%
Derivative assets				
Credit derivatives	Discounted cash flow and/ or credit default swap (hazard rate) models	Credit spreads, recovery rates and/or quanto ratio	0% to 90%	0% to 40%
Equity derivatives	Discounted cash flow, option pricing and/or futures pricing models	Volatility and/or dividend streams (greater than 3 years)	15,09% to 64,67%	17,82% to 67,71%
Foreign exchange derivatives	Discounted cash flow and/ or option pricing models	African basis curves (greater than 1 year)	(28%) to 29.5%	(16,6%) to 13,1%
Interest rate derivatives	Discounted cash flow and/ or option pricing models	Real yield curves (greater than 1 year), repurchase agreement curves (greater than 1 year), funding spreads	0,25% to 10,69%	0,31% to 3,38%
Deposits due to customers	Discounted cash flow models	Barclays Africa Group Limited's funding spreads (greater than 5 years)	0.2% to 1.9%	(0,27%) to 2,13%
Debt securities in issue	Discounted cash flow models	Funding curves (greater than 5 years)	0.2% to 1.9%	(0,27%) to 2,13%
Investment properties	Discounted cash flow models	Estimates of periods in which rental units will be disposed of Annual selling price escalations Annual rental escalations Expense ratios Vacancy rates Income capitalisation rates Risk adjusted discount rates	1 to 6 years 0% to 6% 0% to 6% n/a n/a 7,75% to 8% 11% to 15%	1 to 10 years 1% to 7% 1% to 7% 25% to 50% 1% to 7% 10% to 11% 14%

For assets or liabilities held at amortised cost and disclosed in levels 2 or 3 of the fair value hierarchy, the discounted cash flow valuation technique is used. Interest rates and money market curves are considered unobservable inputs for items which mature after 5 years. However, if the items mature in less than 5 years, these inputs are considered observable.

For debt securities in issue held at amortised cost, a further significant input would be the underlying price of the market traded instrument.

The sensitivity of the fair value measure is dependent on the unobservable inputs. Significant changes to the unobservable inputs in isolation will have either a positive or negative impact on fair values.

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14.10 Unrecognised losses as a result of the use of valuation models using unobservable inputs

The amount that has yet to be recognised in the statement of comprehensive income that relates to the difference between the transaction price and the amount that would have arisen had valuation models using unobservable inputs been used on initial recognition, less amounts subsequently recognised, is as follows:

	2017 Rm	2016 Rm
Opening balance at the beginning of the reporting period	(139)	(105)
New transactions	(27)	(64)
Amounts recognised in profit or loss during the reporting period	32	30
Closing balance at the end of the reporting period	(134)	(139)

14.11 Third party credit enhancements

There were no significant liabilities measured at fair value and issued with inseparable third-party credit enhancements.

15. Reporting changes overview

15.1 Accounting policy changes

The Group made the following accounting policy changes as a result of new and amended standards of IFRS, which had no impact on the previously reported earnings of the Group:

- › The Group adopted the requirement to present the effects of changes in the fair value, which relate to own credit, of financial liabilities designated at fair value through profit or loss in other comprehensive income at 1 January 2017. The impact of this change has been detailed in the statement of comprehensive income and has no impact on opening reserves/retained earnings. Comparatives have not been restated.
- › All other amendments to IFRS, and new interpretations, effective for the current reporting period had no significant impact on the Group's reported results.

15.2 Changes in reportable segments

The following business portfolio changes have impacted the financial results for the comparative period. None of the restatements have impacted the overall financial position or net earnings of the Group:

- › Barclays PLC disposed of 12,2% and 33,7% of the Group's shares in May 2016 and June 2017, respectively. As part of its divestment Barclays PLC contributed £765m, primarily in recognition of the investments required for the Group to separate from Barclays PLC. This contribution will be invested primarily in rebranding, technology and separation-related projects and it is expected that it will neutralise the capital and cash flow impact of separation investments on the Group over time. The separation process will increase the capital base of the Group in the near-term and generate endowment revenue thereon, with increased costs over time as the separation investments are concluded. The Group has therefore included an additional reconciling stripe, 'Barclays separation' in its segment results.
- › In the second half of 2016, the Group revised its operating model with 'geography' and 'customer' as primary dimensions, creating a platform for increased focus and dedicated management capacity: South Africa Banking, Rest of Africa Banking and WIMI (historically reporting was by customer only i.e. RBB, CIB and WIMI). The reporting changes to financial disclosures were implemented from 1 January 2017.
- › The Group refined its cost allocation methodology, resulting in the restatement of operating expenses from RBB South Africa (R528m), CIB Rest of Africa (R83m) and Head Office, Treasury and other operations (R7m) to CIB SA R379m, WIMI R194m and RBB Rest of Africa R45m.
- › Commercial Property Finance (CPF) customers with loan balances exceeding R40m of R10.9bn were moved from Retail and Business Banking (RBB SA) to Corporate and Investment Banking (CIB SA) to reflect the Group's customer segmentation and coverage model.
- › The Group further enhanced segmental disclosures in the second half of 2017 to provide granularity to the South Africa Banking segment (which now expands to RBB SA and CIB SA levels).

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Significant banking subsidiaries

Information on the entity and the products and services provided (including banking, insurance and investments) can be found at:

Absa Bank Limited

Barclays Bank of Botswana Limited

Barclays Bank of Ghana Limited

Barclays Bank of Kenya Limited

Barclays Bank Mauritius Limited

Barclays Bank Mozambique SA

Barclays Bank Seychelles Limited

Barclays Bank Tanzania Limited

Barclays Bank of Uganda Limited

Barclays Bank Zambia Plc

National Bank of Commerce Limited

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